

MEMORANDUM

April 11, 2008

TO: County Council

FROM: Stephen B. Farber, Council Staff Director *SBF*

SUBJECT: Overview of the FY09 Operating Budget

The Council is scheduled to make final decisions on the County's FY09 operating budget on May 15 and to adopt implementing resolutions on May 22. This overview outlines the core budget issues that the Council will address and resolve over the next five weeks.

**Budget Context and Size**

Although the County's economy remains much more vibrant than the national economy, it too has clearly slowed.<sup>1</sup> County revenues can no longer sustain the spending base, which is up more than 80 percent in the last decade. Direct State operating aid is no longer growing rapidly; for FY09 it is actually **down 0.4 percent** from the FY08 level, \$527.7 million. Even with Council approval of a \$33.2 million savings plan in FY08, the Executive has proposed both service reductions and a large property tax increase in FY09. The table on ©1-2 shows the steps taken to close the projected FY09 budget gap, which stood at \$401 million in November and \$296 million in February. (See also the table on ©3 that outlines the even more aggressive steps taken to close the FY04 gap of \$321.4 million.)

**The Executive's recommended FY09 tax supported operating budget is \$3.7701 billion, up 3.2 percent (\$117.4 million) from the Council-approved FY08 budget. Apples-to-apples, the increase is 4.2 percent.** This is because the recommended budget shifts \$32.6 million in State social services funding (HB669) from the tax supported budget to the Grant Fund. Similarly, the apples-to-apples recommended increase for County Government is 4.2 percent rather than the nominal 1.6 percent. The total recommended budget, including grants and enterprise funds, is up 3.9 percent (\$161.8 million) to \$4.3243 billion.

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<sup>1</sup>The national indicators show an economy bordering on recession, if not already there, and a credit squeeze that continues to spread. The unemployment rate has risen to 5.1 percent, compared to 4.4 percent one year ago. The County rate is just 2.7 percent, a full percent below the State rate, but job growth is anemic; Montgomery and Frederick counties combined added fewer than 1,000 payroll jobs last year. State sales tax receipts in the County fell 0.6 percent in 2007. Residential construction activity continues the marked slowdown that started five years ago. Existing home sales are projected to fall 33.8 percent in FY08 to the lowest level in nine years, and the housing sales inventory is at a record high (a ten-month supply). These data suggest a continuation of sluggish growth in County income tax revenue, weakness in transfer and recordation tax revenue, and limited growth in the property tax base.

For details, see the Executive's transmittal letter on ©4-13. See also the transmittal letters from Board of Education President Navarro for MCPS on ©14-15, Board Chair Shulman and President Johnson for the College on ©16-21, Chairman Hanson for M-NCPPC on ©22-31, and Chair Mandel for WSSC on ©32-36. In addition, see the Spending Affordability table on ©37 and the Budget Summary table on ©38.

### **Comparison with Budgets Elsewhere**

Many government budgets elsewhere in the region and the nation are even more constrained than the County's. The Prince George's Executive proposed an increase of just 1.3 percent as well as higher income and recordation taxes, while the D.C. Mayor's budget is up 0.7 percent. In Northern Virginia counties, the absence of a local income tax, combined with the annual (rather than triennial) property assessment schedule and declining home values, has sapped both revenue and the expenditures proposed by county managers.

The Fairfax County Executive's budget called for flat spending on schools and government services, and for cutting pay increases by half. It also projected lean future budgets. In Prince William County, especially hard hit by foreclosures, the executive proposed a 28 percent hike in the property tax rate, while the Loudoun County rate is up 19 percent. The Arlington County manager proposed no COLA for employees and a restructuring of "unsustainable" retiree health benefits. While the governing bodies may soften these proposals, the fiscal prospects for Northern Virginia counties are grim.

Elsewhere in the nation, most state and local budgets, except those in farm and energy-rich states, face similar challenges. New Jersey's Governor, calling for "cold-turkey therapy for our troubled spending addiction," proposed a budget \$500 million smaller than FY08, with 3,000 fewer state workers and three fewer departments. States ranging from Rhode Island, Maine, and Ohio in the frostbelt to Florida, Arizona, and Nevada in the sunbelt are struggling as well. California is grappling with a \$16 billion budget gap.

### **Recommended Allocations to Agencies**

The Executive's recommended budget increases for the four tax supported agencies are similar – **4.2 percent** for County Government (see page 1), **4.0 percent** for MCPS, and **4.5 percent** each for the College and M-NCPPC, with no additional County funding for the College. The level of detail is quite different. For County Government departments, the Executive provided extensive information, some of which, as in past years, requires clarification. For the other agencies, the Executive provided macro reductions rather than specific recommendations. As OMB Director Joseph Beach wrote last year, the Executive relies on the agencies' governing boards "to determine how those reductions should be reflected in the budgets for those agencies."

**This macro approach, which began with Mr. Duncan, is quite different from the approach of Mr. Potter and his predecessors.** In the difficult FY92 budget, for example, Mr. Potter clearly stated his view that COLAs were unaffordable for all agencies. For the College

and M-NCPPC, he offered programmatic detail. For MCPS, he prepared detailed "denial recommendations" in accordance with State Education Article §5-102(c)(2): *The county executive shall indicate in writing which major categories of the annual budget of the county board have been denied in whole or reduced in part and the reason for the denial or reduction.*

In FY93, another difficult year, Mr. Potter prepared a 20-page "denial memo" that specified \$49.6 million in reductions (6.5 percent) from the Board's \$768.3 million request. His reductions started with denial of all negotiated pay increases (\$42.1 million) and included 23 other detailed proposals ranging from \$38,890 to \$2,228,292. Resolution 12-660 on ©39-40 shows that the Council ultimately decided to reduce the Board's FY93 request by \$44.7 million.

**Mr. Leggett, like Mr. Duncan, has read State law differently from Mr. Potter and his predecessors.** The budget document states: "The Executive believes that the total FY09 Operating Budget recommendation supports educational needs and maintains commitments to employees." The budget summary lists the 4.0 percent recommended increase and includes the workyear number from the Board's budget (21,061.2).

But the document does not explain how "commitments" to the same number of employees can be reconciled with a reduction of **\$51.1 million** from the Board's request, nor does it suggest other ways of achieving this reduction, such as fewer personnel or program cuts. Last year, when the Executive recommended a reduction of \$19.7 million from the Board's request, he transmitted a list of options, "not recommended in totality...that the Council and the Board could consider." This year there is no such list.

There is a similar lack of specificity in the budget levels recommended for the **College and M-NCPPC**, which are down, respectively, **\$9.6 million** and **\$16.8 million** from the governing boards' requests. This is not to say that the Executive's macro resource allocation proposals are not the right ones in the current fiscal climate. But it is to say that for nearly two-thirds of County agency allocations, the Executive did not specify how to achieve the targets he recommended. **That job is left to the Council and the governing boards.**

For **County Government**, most of the Executive's recommendations are specific. The table on ©41-42 shows that for most departments, the double-digit increases that were common two years ago, and even last year's moderate increases, are a distant memory. Among the budgets that require further detail is Fire and Rescue (MCFRS). The budget brings back service reductions that the Council rejected in the FY08 savings plan, and it is up just 1.0 percent despite chronic overtime problems and the addition of 11.2 workyears. Moreover, it assumes approval of a new ambulance (EMST) fee, whose fiscal impact statement and backup details have not yet been transmitted.

Total net County Government workyears are up 124.2, or 1.3 percent. Increases include 95.2 workyears in Transit services, chiefly reflecting the County take-over of contracted bus services, and 11.2 in MCFRS. Reductions include 11.8 workyears in Corrections related to overtime funding, 6.8 in HHS due to a shift of the ACT team to the State, and 11.4 in Police from elimination of the Community Services Division and Community Policing programs plus 19.7 from elimination of the January 2009 recruit class.

## Revenue Issues

As usual, the budget includes increases in a range of fees and fines. The list on ©43-44 totals \$25.1 million. The comparable list last year totaled \$9.8 million.

The key revenue issue is the Executive's proposal to exceed the **Charter limit on property tax revenue** by \$137.8 million.<sup>2</sup> The Charter limit, approved by County voters in 1990, permits annual growth in County property tax revenue from **existing real property** to increase only by the rate of inflation. The limit does not apply to revenue from new construction, several more minor factors, or personal property.

The Council may exceed the Charter limit with a supermajority of seven affirmative votes. No criteria, such as emergency conditions, are specified for doing so. The understanding in 1990 between Councilmembers who sponsored the amendment (including Mr. Leggett) and Robert Denny, head of Fairness in Taxation, which had advocated a stricter alternative, was that this flexibility would enable the Council to deal with serious fiscal challenges over time. In its 17-year history, the Council has exceeded the Charter limit only three times, in FY03-05, by increasing amounts: \$4.3 million, \$29.2 million, and \$37.3 million. **The Executive proposes to exceed the Charter limit in FY09 by nearly twice this combined total.**

For the last three years, with property assessments rising sharply, the Council has met the Charter limit in several ways:

- in FY06, by cutting the rate 4 cents, providing a \$116 income tax offset credit for owner-occupied principal residences,<sup>3</sup> and expanding the County supplement to the State's Homeowners Property Tax Credit Program (circuitbreaker).
- in FY07, by cutting the rate another 5 cents and providing a \$221 credit.
- in FY08, by providing a \$613 credit. The table on ©45 shows the progressive impact of this approach compared to other ways the Council could have chosen to meet the Charter limit, i.e., a 10.6 cent rate cut or an approach combining a rate cut and a credit. Under the all-credit approach, residences with a taxable assessment of up to \$475,200 actually had a **lower** bill in FY08 than in FY07, starting with 8.2 percent lower for a taxable assessment of \$275,000.

**It is important to understand that resources to fund the FY09 budget are up only \$133.4 million compared to the FY08 approved budget (see the table on ©37). If the goal is to reach the Charter limit by providing a credit, FY09 resources are up only \$14.1 million.**

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<sup>2</sup> County policy requires 6 percent of this amount, or \$8.3 million, to be added to the reserve.

<sup>3</sup> State and County laws authorize the Council each year by resolution to grant a property tax credit to owner-occupied principal residences "to offset in whole or in part increases in the county...income tax revenues resulting from a county income tax rate in excess of 2.6 percent." A key feature of the offset credit, as Councilmember Floreen first pointed out in 2005, is that it produces a smaller revenue loss than a rate cut. This is because a rate cut applies not only to existing property (which is subject to the Charter limit) but also to new construction and personal property (which are not). Moreover, the credit focuses the property tax relief on owner-occupied principal residences (as distinct from rental and non-residential property).

**If the goal is to reach the Charter limit by cutting rates, as the MFP Committee has recommended, FY09 resources are actually down \$4.4 million.**

To raise substantial new revenue in FY09, the Executive's proposal is to combine a credit of \$1,014 – the maximum amount permitted by the formula as we read the State law – with a 7.5 cent **increase** in the rate. For non-residential properties, which include rental housing, this would mean a tax bill increase in the range of 20 percent. For owner-occupied principal residences, bill changes from FY08 would vary with the taxable value.

**The table on page 5A provides important information on the impact of the Executive's proposal on properties of different taxable values, not only for FY09 but for FY05-09, reflecting the credits approved by the Council in recent years as well. This will enable us to develop a series of alternatives for the Council to consider.** Council and Executive staff have met to discuss the options the Executive reviewed and why he chose this one. When the MFP Committee takes up this issue in early May, we will have background information to answer such questions as:

- What are the distributional effects, both residential and non-residential – that is, who is affected, and how much?
- What is the impact on renters from the higher tax bills for apartment buildings?
- In view of the reductions for residences with lower taxable values resulting from the credits given in the last three years and especially last year, should there be another reduction this year?
- Since this year's proposed credit is at the maximum permissible level, what would happen next year to residences with lower taxable values?

**There are two threshold questions about the Charter limit. One deals with the FY09 resource constraints described above. The other is whether, irrespective of these constraints, the Council feels that the Charter limit should be exceeded this year, and if so, by how much.**

It is worth recalling that in 2005 Mr. Duncan proposed exceeding the Charter limit by \$62.5 million. The Council was narrowly divided but ultimately adhered to the Charter limit and reduced his recommended budget instead. This year the Executive has concluded that \$137.8 million in additional revenue is required to avoid additional expenditure reductions. Moreover, since the revenue increase would remain part of the property tax base indefinitely, it would help meet future revenue requirements and perhaps obviate the need to exceed the Charter limit again in the next few years. See, for example, the impact of the increase on the FY09-14 Fiscal Plan on ©46. The currently projected budget gaps for FY10-14, with property tax assumed at the Charter limit, start at \$200.4 million in FY10 and grow to \$804.7 million in FY14.

For property taxpayers, this argument works in reverse; the tax bill increase would stay with them indefinitely. **The issue is whether this is the time to add to the financial pressures on County residents, especially those of limited means or on fixed income.** Like people elsewhere, they feel the impact of sharply higher costs for groceries, gasoline, electricity, home heating, State taxes, Metro fares, and water/sewer service; falling values for homes and retirement accounts; and for some, the fact or prospect of foreclosure and unemployment.

	A	B	C	D	E	F	G
1	FY 09 PROPERTY TAX OPTIONS: CE Recommended amount and approach						
2							
3	Reduce property tax from amount at current rates by: (\$122) million						
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	Taxable Value In FY08	% Change in property tax bill		Effective Tax rate FY09
		FY08 - FY09	FY05 - FY09	
	100,000	-78.7%	-91.7%	0.056
	200,000	-4.6%	-23.9%	0.517
	300,000	5.6%	-1.3%	0.671
	312,000	6.3%	0.4%	0.683
	377,659	9.0%	8.0%	0.734
	400,000	9.7%	10.0%	0.748
	500,000	11.9%	16.8%	0.794
	600,000	13.2%	21.3%	0.824
	700,000	14.2%	24.5%	0.846
	800,000	14.8%	27.0%	0.863
	900,000	15.4%	28.8%	0.876
	1,000,000	15.8%	30.3%	0.886
	1,100,000	16.1%	31.6%	0.894
	1,500,000	16.9%	34.9%	0.917
	2,000,000	17.5%	37.1%	0.932
	2,500,000	17.8%	38.5%	0.941
	3,000,000	18.1%	39.4%	0.947
	3,500,000	18.2%	40.0%	0.952
	4,000,000	18.3%	40.5%	0.955

Median

Mean

Other taxes – on income, energy, and telephones – were raised to balance the FY04-05 budgets and, as a practical matter, cannot be raised again now. These increases have become an integral part of the County's revenue base, accounting for \$308.7 million or 10.2 percent of FY09 local tax revenues (\$3,034.3 million). See the table on ©48.

The income tax rate is now at 3.2 percent of Maryland taxable income, the maximum rate permitted by the State. The energy tax (more than quadrupled since FY03) and the tax on telephone landlines (more than doubled to \$2 per month and applied to wireless lines) are already high and have a relatively small yield in any event. **Indeed, the Executive's only real option to achieve a large revenue increase in FY09 was to exceed the Charter limit.**

During the recession of the early 1990s the Council raised taxes on income, energy, and telephones, but as fiscal conditions improved later in the decade, the Council reduced those taxes (and also eliminated the beverage container tax). The Council was then able to use this "tax room" to counter the sharp downturn earlier in this decade. **This "tax room" was not available in the current downturn. Since it probably will not be available in the next one either, pressure will once again grow to exceed the Charter limit.**

### **Workforce and Compensation Issues**

Employee compensation and benefits are always a key building block of the budget. Once again this year they account for 80 percent of the budget. Of the \$126.2 million increase requested by the Board of Education, \$112.7 million (89.3 percent) is for salaries and benefits.

Total workyears for all agencies, listed in Schedule D-2 of the budget, are up 1.5 percent to 34,098.5. In recent years workforce growth, like budget growth, has been explosive. County Government added 1,300 jobs (a 15 percent increase) over the last five years and 2,200 (a 28 percent increase) over the last 10 years, while population in those periods rose only 4 percent and 15 percent. MCPS added 5,000 jobs in the last 10 years (a 30 percent increase) while enrollment rose 7 percent. All these increases were for purposes deemed important at the time.

Meanwhile, the current three-year negotiated agreements with the six County and MCPS unions all provide compounded salary increases in the 26-29 percent range for the two-thirds of employees who are eligible for annual service increments, as well as enhancements to already excellent benefits. The FY09 COLAs are **5.0 percent** for MCPS employees, **4.5 percent** for MCGEO, **4.0 percent** for the FOP (after **7.5 percent** last year), and a total of **4.0 percent** for the IAFF – all plus **3.5 percent** (or similar) service increments for those not at maximum salary.

The MCGEO reopener also calls for an increase of **2 percent** of salary (from 6 to 8 percent) in the County contribution to the Retirement Savings Plan, which covers more than 4,000 employees. For most such employees, this 2 percent, plus the 4.5 percent COLA and the 3.5 percent service increment, amounts to a 10 percent increase in FY09. The new IAFF contract "caps" employees' overtime pay at 100 percent of their salary and allows waivers to exceed that amount.

Another provision in the MCGEO reopener would give members of the Retirement Savings Plan and new employees a one-time option, starting in July 2009, to transfer to a new **Guaranteed Income Retirement Plan (GRIP)**. This cash balance plan would provide a guaranteed annual return of 7.25 percent. This would be a new liability for the County; in the RSP, employees' returns depend on their own investment choices. The GRIP may be a good option for some employees to have, but it raises the potential exposure of the County's pension fund, whose unfunded liability is now \$631 million. The fiscal impact statement on ©46A-B projects that the GRIP will actually save the County money because the fund's assumed annual actuarial return, 8.0 percent, is more than 7.25 percent. This saving would occur only if the fund actually achieves this return. If it doesn't, the County's unfunded liability will increase.

Two other examples from **Fire and Rescue (MCFRS)** illustrate the impact of compensation costs. As the Office of Legislative Oversight noted in phase I of its base budget review (February 2007), between FY02 and FY07 the MCFRS workforce grew by 17 percent (171 positions) while compensation costs grew by 83 percent (\$70.1 million). As the Fiscal Plan excerpt on ©47 shows, the projected cost of four-person staffing, compared to FY09, rises from \$3.8 million in FY10 to \$19.2 million in FY14, not including the higher salary and benefit costs associated with the new contract starting in FY09.

**Retiree health benefits are another example.** Last year the Council agreed to a five-year phase-in of the annual required contribution (ARC) to pay future benefits. For the four agencies combined, the ARC was calculated at \$240 million, nearly \$190 million more than the pay as you go amount for current retirees. The FY08 phase-in amount, \$31.9 million, was scheduled to rise to \$70.7 million in FY09. This year the ARC has been recalculated at \$250 million. The Executive proposed an eight-year phase-in, saving \$15.6 million in FY09. Under this schedule the **\$55.1 million** contribution in FY09 will rise sharply in future years, from **\$92.2 million** in FY10 to **\$269.0 million** in FY15. The FY09-15 total is **\$1.2 billion**. See ©49.

In recent negotiations with the three County unions, there was agreement on achieving savings in prescription drug costs through greater use of mail order and generic drugs. But on the issue of considering modest revisions to retiree health benefits for future employees (not current or retired employees), the agreement was to study the issue until September 1, 2009, when negotiations will start for the new contracts to be bargained in the election year of 2010.

**These are the costs that drive the County budget and ratchet up the spending base.** They are affordable when times are good and revenue growth is strong. But in downturns – in the early 1990s, the early part of this decade, and again now – they require large tax increases. The time will come when such increases reach a tipping point.

The County is an outstanding employer, and its compensation policies rightly promote efforts to recruit and retain employees in a competitive marketplace. OHR's annual surveys show clearly that for almost all job categories, County agencies' salaries and benefits compare favorably with those in other jurisdictions and the private sector. Our permanent employees also have something that many others in this economy do not have: virtual job security.



Given the way the collective bargaining process now functions in County agencies, their costs for improved salaries and benefits will probably continue to rise strongly. But for future budgets to be sustainable, all stakeholders – unions, managers, and the community alike – will have to join in focusing more systematically on slowing workforce growth and improving productivity. One step in this direction could be for the Council to require all agencies to transmit, by September 1 each year (or in conjunction with their budget transmittals) a **workforce right-sizing plan** for the coming fiscal year. Such plans would focus on normal annual turnover of positions – for example, about 600 in County Government and 1,700 at MCPS – and more effective use of technology.

The Executive's proposed **Retirement Incentive Program**, which is projected to save \$5 million in FY09, is a very modest step. It assumes the abolishment of just 54 positions; see the fiscal impact statement on ©50-53. Overall the Executive proposes to abolish 225 positions. Executive staff estimate that only 60 of these positions would be subject to the County's reduction-in-force procedures. Based on the County's experience in the early 1990s, every employee who seeks an alternative County Government placement will be offered one.

#### **Approach for Committee and Council Budget Review**

The Council's five public hearings on the budget were held on April 7-10. The Council will set the FY09 spring spending affordability guidelines on April 15. Committee worksessions have started; Council worksessions will begin on May 5. Revenue day and reconciliation day are scheduled for May 14 and 15. Our budget tracking system, which records all Committee and Council actions, will prepare regular updates until May 22, the date for final budget approval.

Council President Knapp has requested our analysts and Committees, as they review the base budget and proposed changes for departments and agencies, to start with the Council-approved FY08 operating budget and then assess:

- which items – either in the base or new – warrant full, reduced, or no funding in FY09
- which items may warrant future funding but require further information and analysis
- which items that are recommended for elimination or reduction, or that are not in the recommended budget, should be considered for funding.

The Council President made these further points: All such items will be reflected in Committee recommendations to the Council. Any Committee-proposed addition to the recommended budget will go on the reconciliation list. Given the current fiscal situation, this list should consist only of those items that Councilmembers conclude have top priority. When the Council takes up Committee recommendations in May, you will need to decide how those recommendations fit with the Council's overall priorities.

## **Need for and Availability of Resources**

As the Council reviews budget options over the next five weeks, there will be two recurring questions:

### **What could increase the need for resources?**

1. Specific additional items the Council feels are essential or desirable to include in the budget. These will appear on the reconciliation list, which must be limited this year.
2. Resources to replace all or part of the Executive's property tax increase above the Charter limit. Full replacement would require \$137.8 million in alternative resources or \$129.5 million in expenditure reductions.
3. Resources to replace the ambulance (EMST) fee (\$6.3 million net), whose fiscal impact statement and background details have not yet been transmitted. The Council President has said that this proposal cannot be considered until after budget.
4. Resources to meet any new costs identified after the Executive's recommended budget was transmitted on March 17.

### **What could increase the availability of resources?**

1. Specific items the Council reduces from the budget.
2. Specific items the Council defers. Deferral is easier in the CIP, which has a six-year horizon, but can be applied to the operating budget as well.
3. Any funds remaining from the set-aside for FY08 potential supplemental appropriations. See the list on ©54. On April 8 the Council approved two special appropriations for M-NCPPC, totaling \$951,000, that are not included in this list.
4. Any funds available after next month's review of the third quarterly analysis of County Government revenues and expenditures, prepared by Finance and OMB.
5. Reducing projected salary increases. A one percent reduction in COLAs for all agencies would save \$22.9 million (tax supported).
6. Reducing projected agency workforce levels by a harder freeze on vacant positions and/or additional position abolishments.
7. Reducing the 6 percent reserve (\$238.0 million) to 5.5 percent or 5.0 percent.<sup>4</sup> This would make \$19.8 million or \$39.7 million available for other purposes. The Executive strongly advised against this approach. See the memo on ©55-58.
8. Further extending the phase-in of retiree health benefits pre-funding. For example, a ten-year schedule, rather than the proposed new eight-year schedule, would reduce the projected FY09 contribution by \$11 million. The Executive strongly advised against this approach also. See the memo on ©55-58.

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<sup>4</sup> The reserve percentages in the Council's approved budgets from FY03 to FY08 are 5.9, 5.5, 6.1, 6.0, 6.4, and 6.0.

# Reconciliation of the Gap from November 19 to March 17, 2008

	FY09
Gap on November 19, 2007	\$ (400.923)
<u>Adjustments to-date to Close Gap</u>	
Resource Changes	
Montgomery County Public Schools State Aid	(0.465)
Adjustment to Reserves	(14.400)
Count Designated Reserve as part of 6% Total Reserve	6.780
Reduce CIP PAYGO from \$44 million to \$30 million	14.000
Net Effect on Reserves of Resource Changes	0.524
Changes to Supplemental Appropriations	6.172
Change to approved supplementals	
Change to pending supplementals	
Net Effect on Reserves of changes to supplementals	
Savings Plans	
County Government expenditure reductions	15.386
County Government revenue increases (FY08 & FY09)	4.259
Montgomery College	1.972
MNCPPC	1.937
Montgomery County Public Schools	10.200
Net Effect on Reserves	(2.025)
FY09 Agency Spending	
County Government "Same Services" Budget -- 6.6%	22.281
MCPS at Superintendent's Request -- 6.8%	35.553
Montgomery College at BOT Budget Presentation -- 9.3%	(1.022)
MNCPPC at Planning Board Request -- 21.5%	(14.540)
Other Uses	
Finance Fillmore instead of Current Revenue:	
Release Current Revenue in FY08 and FY09	3.739
Add debt service	(0.400)
Revised Revenue Estimates	15.359
Less: Impact of new revenue estimates on reserves	(0.922)
Gap on February 18, 2008	\$ (296.534)

**Gap on February 18, 2008****\$ (296.534)****Additional Measures Taken to Close Gap****Resource Changes**

Montgomery County Public Schools revenue changes	2.289
Montgomery College fund balance adjustment (per fund balance policy)	1.476
Shift HB669 Revenues from General Fund to Grant Fund	(32.593)
Net Effect on Reserves	2.698

**Current Year Expenditure Changes**

Montgomery County Public Schools	0.523
County Government (reappropriation of fund balance, etc.)	(5.807)
Net Effect on Reserves	0.317

**Revised Revenue Estimates**

Taxes	(24.277)
Charges for services, licenses and permits, fines, etc.	15.129
Change to Net Transfers (MHI, Liquor Control, etc.)	22.110
Net Effect on Reserves	(0.778)

**New Sources of Revenue**

Recordation Tax Premium (FY08 only)	1.669
Controlling Interest	12.595
Personal property tax on electricity generators	0.833
EMS fee	7.048
Net Effect on Reserves	(1.329)

**FY09 Agency Spending Reductions**

County Government (including HB669 shift to Grant Fund)	62.699
MCPS (from request)	50.736
Montgomery College (from request)	9.582
MNCPPC (from request)	16.753

**Other Uses**

Adjustments to CIP Current Revenue	12.929
Adjustments to Debt Service	15.090
Adjustment to Set-Aside	(1.802)
Net Effect on Reserves	(0.070)

**Property Tax Increase (net of 6% contribution to reserves)****128.714****Gap on March 17, 2008****\$ 0.000****Notes:**

1) This is a reconciliation of actions taken to eliminate the gap as presented on November 19, 2007. Therefore, revenue and expenditure changes are in relation to estimates as of that date for FY08 and FY09.

2) Positive figures are reductions to the gap. Negative figures are increases to the gap.

# CLOSING THE FY04 GAP

	Amt. (000)	% of Solution	
1 Gap at the time of Fall Spending Affordability Guidelines (SAG)	(302.8)		As of Nov. 25, 2002. Changes below in expenditures, non-agency uses, and resources are compared to the Executive's Recommendations on SAG; Data includes FY03 and FY04 unless otherwise stated; reductions to the gap are positive and increases to the gap are negative.
2 <b>SUBSEQUENT INCREASES TO THE GAP</b>			
3 Montgomery County Public Schools (MCPS) Request	(2.5)	-0.8%	Costs in addition to estimates on Nov. 25
4 Montgomery College (MC) Request	(4.6)	-1.4%	Costs in addition to estimates on Nov. 25
5 Maryland National Capital Park & Planning Comm'n. (MNCPPC) Request	(3.1)	-1.0%	Costs in addition to estimates on Nov. 25
6 Increased Compensation: MCG FOP and pass through to Management	(2.5)	-0.8%	Not included on Nov. 25
7 Refinements to costs in MCG estimates	(3.0)	-0.9%	Increases to estimates on Nov. 25
8 Reduction to FY03 Highway User and College State Aid	(2.8)	-0.9%	In Governor's Budget
9 <b>Total Gap after subsequent increases</b>	<b>(321.4)</b>		
11 <b>RESOURCE CHANGES</b>			All changes include FY03 and FY04 and are the difference between current estimates and assumptions on Nov. 25, 2002
12 Property Tax	(1.0)	-0.3%	
13 Income Tax	34.2	10.6%	Increased estimates based on current rates of 2.95%
14 Income Tax Rate Increase	21.9	6.8%	Increased revenues attributable to rate increase to 3.2%
15 Go Montgomery Repayment	8.4	2.6%	For FY03 supplemental appropriation; Shown as retention of Highway User revenues in general fund in excess of 3 cent property tax increase
16 Transfer/Recordation Tax	24.4	7.6%	Includes \$10 million in Transfer & Recordation tax revenues from "controlling interest" legislation (HB19)
17 Other Taxes	4.2	1.3%	Hotel/Motel, Telephone, Energy, and Admissions Tax
18 Mass Transit State Aid	3.7	1.1%	For implementation of Smartcard technology
19 Public Schools State Aid	4.0	1.3%	Includes \$1 million for MSDE reimbursement for non-public placement in FY03; and \$3 million in FY04 for increased current expense aid from the State.
20 Other Intergovernmental Aid	10.6	3.3%	Includes Highway User, Libraries, Police Protection, Reimbursements, etc; estimates are at current State law and does not anticipate approval of the Governor's proposed Budget Reconciliation Act for FY04
21 Fees, Fines, and Miscellaneous	7.8	2.4%	
22 <b>Subtotal: Net Increased Revenues</b>	<b>118.1</b>	<b>36.8%</b>	
24 Change in Transfers	3.5	1.1%	Includes Liquor Control and increased Cable TV transfers
25 Increase in Beginning FY03 Undesignated Reserves	5.2	1.6%	Due to higher than estimated College and MCG General Fund balance
26 Temporary Adjustment to Reserve Policy	16.2	5.0%	To 5%; Must be restored in FY05 and FY06 to 6%
27 Move FY04 Recordation Tax revenues from FY03 rate increase to undesignated reserves	18.4	5.7%	Preserves funding for all programmed CIP projects in FY03-08
28 Move FY03 Designated Reserves from Recordation Tax revenues to undesignated reserves	3.3	1.0%	Preserves funding for all programmed CIP projects in FY03-08
29 <b>Subtotal: Additional Resources &amp; Revenues</b>	<b>164.8</b>	<b>51.3%</b>	
31 <b>EXPENDITURE REDUCTIONS</b>			
32 Debt Service	11.3	3.5%	Due to reduced interest rates and financing schedule for certain projects.
33 Withdrawal of PAYGO from CIP	40.5	12.6%	Includes PAYGO and CIP Current Revenue
34 Eliminate Potential FY03 Supplemental Appropriations	11.4	3.5%	Any remaining tax supported supplementals would need to come from the FY03 "set aside" amount of \$8.2 million
35 <b>Subtotal: Non-Agency Reductions</b>	<b>63.1</b>	<b>19.6%</b>	
37 <b>FY03 Expenditure Savings Plan</b>			
38 Montgomery County Public Schools (MCPS)	0.2	0.1%	MCPS has identified over \$5 million in FY03 savings in administration, textbooks, instructional supplies and other costs to offset unanticipated exp. increases in salaries, special ed., and student transportation.
39 Montgomery College (MC)	2.3	0.7%	
40 Montgomery County Government (MCG)	13.7	4.3%	Includes additional exp. savings from the original Jan. 2003 Savings Plan of \$12.7 M.
41 Maryland National Capital Park & Planning Commission (MNCPPC)	2.1	0.6%	
42 <b>Subtotal: FY03 Savings Plan</b>	<b>18.3</b>	<b>5.7%</b>	
44 Change in FY03 Set Aside	(3.2)	-1.0%	Increased to \$8.2 Million
46 <b>Reduced FY04 Expenditures</b>			
47 Montgomery County Public Schools (MCPS)	31.1	9.7%	Expenditure reductions are shown as the difference between the BOE Request of \$1,406.1 million and the Executive Recommendation of \$1,375 million
48 Montgomery College (MC)	4.0	1.2%	Expenditure reductions are shown as the difference from BOT Request of \$146.4 million and the Executive Recommendation of \$142.4 million.
49 Maryland National Capital Park & Planning Commission (MNCPPC)	3.1	1.0%	Expenditure reductions are shown as the difference from the Planning Board Request of \$74.9 million and the Executive Recommendation of \$71.8 million.
50 Montgomery County Government (MCG)	40.2	12.5%	Reductions are from Fall Fiscal Plan estimates of \$869.5 million and include additional reductions to accommodate subsequent cost increases shown above, but do not include "pre-SAG" cuts of \$10.3 million in non-recurring costs to the MCG FY04 budget.
51 <b>Subtotal: Reduced FY04 Expenditures</b>	<b>78.4</b>	<b>24.4%</b>	
53 <b>Total Expenditure Reductions</b>	<b>156.5</b>	<b>48.7%</b>	
55 <b>Total Additional Resources Over SAG</b>	<b>321.4</b>		
57 <b>Remaining Gap</b>	<b>0.0</b>		



OFFICE OF THE COUNTY EXECUTIVE  
ROCKVILLE, MARYLAND 20850

Isiah Leggett  
County Executive

MEMORANDUM

March 17, 2008

TO: Michael J. Knapp, President, Montgomery County Council  
FROM: *Isiah Leggett*  
Isiah Leggett, County Executive  
SUBJECT: FY09 Operating Budget and FY09-14 Public Services Program

I am pleased to transmit to you, in accordance with the County Charter, my Recommended FY09 Operating Budget and FY09-14 Public Services Program.

When I took office in 2006 I pledged to put the County's financial house in order. My recommended FY09 operating budget continues the effort to do so by bringing current and expected expenditures into better alignment with our revenues.

This was a very challenging budget to develop because it involved difficult choices in the areas of service reductions, revenue increases, and identifying productivity improvements to maintain our most essential services, especially those to our most vulnerable residents. It comes at a time of considerable economic uncertainty. If we formulate our budget appropriately, we can set the County on the right path of fiscal responsibility well into the future. On the other hand, if we fail in our efforts to fully address many of these challenges now, I truly believe we would severely undermine our ability to protect the services and programs the County needs to better enhance our overall quality of life for years to come.

This budget reflects the concerns and policy issues that I heard County residents express during the many Town Hall Meetings, Budget Forums, On-Line Chats, and other community meetings we have held over the past year to better understand the hopes, expectations, and needs of the people of our County.

This budget supports my priority policy objectives:

- Children Prepared to Live and Learn
- Affordable Housing in an Inclusive Community
- Safe Streets and Secure Neighborhoods

- A Responsive and Accountable County Government
- Healthy and Sustainable Communities
- An Effective and Efficient Transportation Network
- A Strong and Vibrant Economy
- Vital Living for All of Our Residents

Montgomery County rightfully prides itself on the investments we make year in and year out to light the lamp of learning in our schools, to help folks move around the County more efficiently, to protect County families and their properties, to be responsible stewards of our environment, to ensure a vital community where men and women can earn a living or grow a business, and to help the most needy and most vulnerable in our midst.

The good news is that Montgomery County will continue to be a place where all that happens. But the bad news is that County government has been living beyond its means. Given the weakness in the housing market and in the national economy, we have a very difficult year ahead in matching our resources and our needs. But our problems do not stop with a single year. We have a structural deficit that will only grow worse – unless we change course – and do it now.

Over the past five years, County government added 1,300 jobs – a 15 percent increase – while population was increasing only 4 percent. Over the past 10 years, the number was 2,200 jobs – a 28 percent increase while population increased only 15 percent.

The past several years saw nearly double-digit increases in County spending. The County budget grew over 80 percent in the past 10 years, while inflation increased by less than 30 percent. Population growth was less than 20 percent over the same period.

The school system – which accounts for nearly half of our budget – increased jobs by 30 percent – 5,000 in total – over the past 10 years – compared to an enrollment increase of 7 percent. Overall, spending per pupil increased from \$8,093 to \$14,411 – or 78 percent – during that same period.

The County paid for all this with strong growth in income, recordation and transfer, and energy taxes – as well as dramatically increased state aid for schools. These increases were, in my view, unsustainable – even without the current difficulties with the economy, the housing market, and the State budget crisis.

The County didn't get into this financial problem overnight – and it cannot be solved in a single year. This is why I am taking a multi-year approach to resolve this unprecedented challenge.

In my first budget, the County faced a \$200 million budget shortfall. We reduced the rate of increase in spending by County government from 14.1 percent to 6.9 percent. Although we were able to fund critical services and held the line on taxes, I warned at that time that more difficult days lay ahead. This past November, the County's income, recordation, and transfer taxes fell far short of projections due to a significant downturn in the housing market. As a result, our projected shortfall increased to \$401 million.

To help us resolve this unusually high shortfall, I recommended spending reductions in this current fiscal year of two percent from County government departments and agencies, including the school system. This initiative provided \$33.2 million in savings. I also imposed a hiring freeze on all but essential personnel. These measures plus other actions helped to reduce our \$401 million challenge to \$296 million.

In addition to changes to the FY08 operating budget, I submitted to the County Council in January a Capital Improvements Program for the next 6 years that increased by only 1 percent over the previous CIP budget. The two previous CIP budgets had averaged increases of 25 percent each.

In the past we could look to the State of Maryland for assistance to help with our financial challenges. Presently, however, the state has its own problems. The increase in state aid for the County this year is likely to be only about \$11 million, a 1.7 percent increase – the smallest in over ten years. Indeed, if you take out state funding for teachers' pensions from that amount, we would actually receive less in absolute dollars from the state.

County residents are paying more in state income taxes and sales taxes that resulted from last fall's Special Session. While we experienced a slight reduction to local aid in the Special Session, the State budget situation is uncertain and additional reductions to local aid may occur. In short, the state is more likely to make our balance sheet worse, not better.

The decline in interest rates also means less investment income for Montgomery County. This source of income is projected to decline in the current year from an expected \$32.8 million to \$14.7 million – a 55 percent decrease.

Many of the limited number of options available to the County to address prior budget shortfalls are no longer available. For example, the County income tax is at the legal limit of 3.2 percent. County taxes on energy and telephone services have been increased substantially over the past half dozen years. County residents' energy costs are at an all-time high.

Because of the urgency of addressing these challenges, we sought additional reductions from our departments in developing the FY09 operating budget. Our process for identifying and deciding which expenditure reductions to make gave an early preference to protecting public safety and health and human services. All decisions on reductions were focused on preserving essential services, protecting the vulnerable, and achieving significant productivity improvements.

Accordingly, I am forwarding to the County Council a recommended operating budget that includes the lowest spending increase in 12 years.

- I am recommending to the County Council a tax-supported budget of \$3,770,119,839, up \$117,364,790 over FY08 – a 3.2 percent increase.
- For the tax-supported budget, funding for Montgomery County government increases by \$20.8 million – a 1.6 percent increase over FY08.
- Funding for the Montgomery County Public Schools increases by \$74.8 million – a 4 percent increase over FY08 and nearly 98 percent of the Board of Education request.
- Nearly two-thirds of the total increase in County spending will go to MCPS.
- Funding for Montgomery College increases by \$8.8 million, a 4.5 percent increase.
- The Maryland-National Capital Park & Planning Commission receives \$4.4 million more, a 4.5 percent increase.



- I recommend a total County budget (which includes debt service, grants and enterprise funds) for Fiscal Year 2009 of \$4,324,296,898, up \$161,750,964 over the FY08 Approved Budget – a 3.9 percent increase.

Eighty percent of the County budget goes toward compensation – wages and benefits for County employees. As a start toward addressing the structural challenges we face, I am recommending the abolishment of approximately 225 positions in County government itself – an estimated 50 of them through an early retirement incentive program.

Only after considering the very serious magnitude of the expenditure shortfall and related service reductions necessary to close the County's budget gap did I conclude that our options were so very limited that it was necessary to increase the property tax. This was a last resort – as it should be.

I have always believed that County government must keep faith with those who pay the bills – our residents. We have an obligation to be honest with them about our challenges and be diligent about reducing spending where possible without critically affecting needed County services. Only then should there be consideration of tax increases. That is the approach I have taken.

While I found it necessary to recommend an increase in property taxes, I have structured the increase in a progressive manner to limit the burden on lower and fixed-income residents.

For the median house in the County, assessed at \$343,200, the homeowner will see a \$138 hike – a 6.2 percent increase. An estimated increase at the Charter Limit Rate would have been 3.6 percent, or an increase of \$80. A homeowner whose home is assessed at \$220,000 (21 percent of County homes) would pay \$56 less in property taxes (a 4.7 percent decrease), while a home assessed at \$500,000 would pay \$383 more – an 11 percent increase. We will promote existing mechanisms for senior citizens and those on fixed incomes to assist them as needed with property tax increases.

Overall, this recommended budget reduces County spending for County-funded agencies by a total of \$155.4 million. This includes \$33.2 million in reductions in FY08 that were approved by the County Council for the County Government, MCPS, the Park and Planning Commission, and Montgomery College. It also includes \$122.2 million in reductions from the amount requested by County government departments and County agencies in FY09. MCPS reductions were \$51.1 million, the Montgomery College request was shaved by \$9.6 million, and the Park and Planning reduction totaled \$15.6 million. County department reductions totaled \$45.9 million.

This was a very challenging spending plan to develop because it required asking more from the community in terms of tax supported resources while considering and making several painful reductions in some services. However, I believe these actions are necessary not only to maintain essential services, but also to create a sustainable budget that is aligned with our capacity to maintain service levels.

In my first budget as County Executive, I slowed the increase in Montgomery County government spending from 14.1 percent in FY07 to 6.9 percent. In this year's recommended tax supported budget the increase is only 1.6 percent. This is necessary if we are to put our financial house in order.

We may disagree on some of the spending priorities and other choices I have made in my recommended budget. However, we should not rely on short-sighted solutions to bring additional resources into this budget in order to increase spending. Lowering the County's reserves, reductions to capital investments, additional

changes to promised retirement health benefit funding, or other one-time approaches will make the situation worse next year when – assuming no changes from my recommended operating budget – we are projecting a \$200 million-plus shortfall for FY 2010 with fewer options available to address this looming challenge.

The outlook on the economy remains highly uncertain – especially the prolonged slowdown in the local housing market. Final decisions by the General Assembly on the State's budget may further affect our capacity to provide local services. Resorting to quick fixes and adding continuing costs back into the budget will only exacerbate the structural budget gaps long into the future rather than addressing them now through real, long-term solutions.

Despite the current challenges we are facing, I am very optimistic about the prospects for our community. The quality and nature of services we offer our residents in the areas of education, affordable housing, public safety, and health and human services are among the very best in the nation. The underlying economy, including property values, is strong, employment is high, and we are growing in our diversity and capacity to work together to find innovative solutions to our challenges.

## Children Prepared to Live and Learn

We must prepare our children to live and learn so that they will become young adults who are productive workers, healthy individuals, and successful, responsible citizens.

For Montgomery County Public Schools, I recommend a total of \$2.060 billion – nearly 98 percent of the Board of Education request. This is an increase of over \$75 million or 3.8 percent over the FY08 Approved Budget to support an anticipated student body of 137,763 down from a high of 139,387 in FY06. Per pupil spending increases to \$14,954.

I recommend an investment of \$250.8 million in Montgomery College. This is an increase of \$12.6 million or 5.3 percent over the FY08 Approved Budget, with a local contribution of \$99.1 million. This level of support requires an increase in tuition and fees of \$3 per credit hour for County residents, \$6 per credit hour for Maryland residents, and \$9 per credit hour for students from outside the State.

Our Positive Youth Development initiative is intended to provide a system for identification, prevention, early intervention and treatment that addresses the particular needs of our most vulnerable children. This budget not only sustains prior investments of nearly \$5 million but adds over \$600,000 in new funding to address the growing need for out-of-school activities.

## Affordable Housing in an Inclusive Community

Despite recent fiscal and economic challenges, we must continue to work to make housing affordable in Montgomery County for all our residents by creating affordable housing and preserving our current affordable housing stock. Given the challenges facing us in this regard, I formed the Affordable Housing Task Force to help identify and develop creative solutions to the crisis of affordable housing in our community. While we are waiting for the group's final recommendations, it is time to implement innovative strategies to expand the stock of affordable housing in Montgomery County.

To do this I recommend an investment of over \$54 million in the Montgomery Housing Initiative fund (MHI) for acquisition and rehabilitation of the County's affordable housing stock. My recommended budget for MHI will leverage the existing resources of that fund with the transfer from the General Fund to create a property acquisition revolving fund which will significantly increase our capacity to acquire affordable

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housing. Thanks to a new approach to leveraging County dollars, this provides a significant increase to the MHI budget without impacting other County operating budget funding priorities.

I will continue to research and develop other innovative efforts for affordable housing, including expanding our partnership with *non-profit providers and national organizations* to bring us closer to the goal of a community where our residents can afford to live and work.

## Safe Streets and Secure Neighborhoods

This budget sustains the most important investments we have made in our public safety departments including patrol and investigative staffing in the Police Department and field staffing in our Fire and Rescue Services. The past several years have seen significant increases in public safety staffing. Due to current fiscal challenges, we have been forced to make reductions in certain public safety programs. However, those reductions were carefully selected to minimize impacts on response time or first response services.

Fire, Rescue, Emergency Medical Services and Emergency Preparedness are paramount to providing residents and visitors safe and secure streets and neighborhoods. Toward this end I recommend adding 36 new firefighter positions to staff the West Germantown Fire Station when it opens during the next fiscal year. We are also including funds to sustain the second phase of four-person staffing on fire apparatus and the uniformed staff added last year to enhance our capacity to make inspections for compliance with the Fire Safety Code.

In this budget I am recommending that we institute an Emergency Medical Services (EMS) transport fee to provide additional resources to sustain and grow our Fire and Rescue Services in the coming years. The projected level of tax-supported resources for the Fire Tax District Fund simply cannot meet the demands for apparatus management; volunteer enhancement, recruitment and retention; performance based initiatives for the volunteer fire rescue departments; additional staffing for new stations opening in West Germantown, East Germantown, Travilah, Clarksburg, and other locations around the County; additional staffing to implement four-person staffing of apparatus; and competitive compensation and benefits for our firefighters and emergency medical technicians.

This EMS Fee will be billed directly to an individual's health insurance. No County resident who is unable to pay will have any out-of-pocket expense for transport to the hospital. All of our surrounding jurisdictions have implemented similar programs with no impact on the willingness of individuals to call for emergency services. The program also will be structured to have no impact on the development and growth capabilities of local volunteer fire and rescue departments.

To address the high incidence of pedestrian injuries and fatalities in our County, I formed the Pedestrian Safety Initiative. This initiative was staffed by an interagency work group from the Maryland-National Park and Planning Commission, the Maryland State Highway Administration, the Montgomery County Department of Public Works and Transportation, Police Department, the CountyStat Office, the County Council, and others, and developed seven strategies designed to enhance pedestrian safety throughout Montgomery County. Based on the recommendations of the work group, I am recommending an additional \$800,000 to conduct safety audits in areas with a high incidence of pedestrian collisions, make physical improvements to those areas, and enhance outreach and education. This additional investment will complement our existing pedestrian safety program, which includes sidewalk repair and construction, signal optimization, crosswalk installation, and outreach and education.

Funding is provided through the Capital Improvements Program to complete the implementation of the States Attorney Case Management System and the Department of Correction and Rehabilitation's CRIMS system, which are key components of the Integrated Justice Information System (IJIS) project. When completed, the IJIS project will provide the County's criminal justice departments with significantly enhanced capabilities to manage records, coordinate activities, share information, and make their daily operational tasks more efficient and effective.

## A Responsive and Accountable County Government

Since taking office last year, I have instituted several measures to make Montgomery County government even better and more efficient in how we operate and provide services to the community.

To improve responsiveness and efficiency, I have reorganized several County Government departments including creating separate Departments of Transportation and General Services from the former Department of Public Works and Transportation. The Office of Procurement and the Local Small Business Reserve program in the Department of Economic Development have been integrated into the Department of General Services as well. Additionally, the Office of Internal Audit and Government Accountability and Compliance have been transferred to the Offices of the County Executive. The County's security services, which were previously in the Department of Homeland Security, have been shifted to the County's Police Department to improve coordination and training.

To improve performance, accountability and to reinforce a focus on results, I established the CountyStat program within my office. The CountyStat program will provide a forum for ongoing monitoring and measurement of the effectiveness and efficiency of County Government services. Where opportunities for improvement are noted, the CountyStat Office, with the affected departments, will develop steps for corrective action to ensure a culture of continuous improvement.

Progress is also being made in the implementation of a centralized 311 Call Center and a Constituent Relationship Management system (CRM) to enhance community services. Residents will ultimately be able to call one number to access County government services, and we will improve our ability to assure that every caller gets a timely response.

We are also continuing to take steps to reevaluate our business processes and modernize our Core Business Systems to improve the efficiency, effectiveness, and responsiveness of the County Government. The Technology Modernization project will provide resources to develop an Enterprise Resource Planning system project (ERP) that will provide a significant upgrade to the County's financial, procurement, human resource, and budgeting systems and will streamline existing business processes. The Technology Modernization capital project will also provide resources to continue to replace the County's manual employee timekeeping system with an automated, web-based system that will provide greater efficiency, functionality, and reporting features.

## Healthy and Sustainable Communities

We must preserve and sustain the environment in our community. In this budget we will improve local water quality by assuming responsibility for inspecting over 100 additional stormwater management facilities and for maintaining nearly 350 more above ground and below grade stormwater management facilities through the County's Water Quality Protection Fund.

I also recommend installation of a new system to reduce nitrogen oxide emissions by half at the County's Resource Recovery Facility, which will substantially contribute to air quality in a cost-effective manner.

To implement the County's recently enacted Green Buildings Law, we are adding staff to the Department of Permitting Services to review building plans and inspect construction sites to ensure compliance with these more environmentally-friendly building standards.

While it was necessary, due to our current fiscal challenges, to make targeted reductions to certain Health and Human Services programs, we were able to sustain our most important commitments and make improvements to other vital services. Staff were added to support the opening of the School Based Health Center at Summit Hall Elementary School and to enforce the recently enacted health regulation restricting the use of ingredients containing trans-fats in most County restaurants. In the Montgomery Cares Access to Healthcare for the Uninsured program, we are maintaining the number of clients served annually at more than 19,000 users.

We have also replaced with local funds the loss of certain critical grants including grant funding for the Child Assessment Center, the Juvenile Drug Court, and the Journeys Intensive Outpatient Program. We have added funding to maintain certain contractually provided services, including those supporting senior nutrition, the Maternity Partnership, and providing housing for mentally ill women.

I am recommending establishment of a Family Justice Center that would offer a more responsive, holistic approach to providing services to the victims of domestic violence. The Family Justice Center concept, which has been used in other jurisdictions around the nation, was developed locally by the Domestic Violence Coordinating Commission with the support of the County Sheriff and members of the County Council. Located near the courts and providing a range of services for families that are victims of domestic violence, the Family Justice Center will provide an integrated, inter-agency approach to providing support and services.

## **An Effective and Efficient Transportation Network**

To make the County's transportation services and capital development more responsive and aligned with my priorities, I am proposing that we separate the Transportation functions from the Department of Public Works and Transportation into its own department. This will allow a greater focus on transportation policies, issues, and services.

With additional resources from the State we are expanding the number of Ride On buses that will be replaced in FY09 to provide a safer, more fuel efficient, and more environmentally-friendly bus fleet. Despite projected route reductions, Ride On is expected to grow to serve over 30.6 million passengers in FY09, a remarkable achievement that will help ease congestion and contribute to improved air quality in the region.

## **A Strong and Vibrant Economy**

A growing, dynamic local economy is essential to maintaining a strong community. I recommend sustaining the commitments we have made to the County's business incubators including establishment of the Germantown Business Incubator. In addition, I am recommending current revenue funding in the capital budget to continue planning for the creation of a new business incubator in the Eastern County at the Life Sciences and Technology Center.

In order to support our small, local businesses we have created the Division of Business Empowerment in the Department of Economic Development and have transferred the administration of the Local Small Business Reserve to the Department of General Services' Procurement Division to provide expanded support for local businesses working with the County Government.

I am also including current revenue funding in the capital budget to continue planning for the creation of a multi-purpose arena. While the location, scope, and timing of this project are still to be determined, this is an exciting opportunity that will benefit the local economy and all of our residents.

## Ensuring Vital Living for All of Our Residents

I am recommending community grants totaling \$4.1 million for nonprofit organizations that assist County agencies in addressing the human service needs of people in our community. We are recommending consolidating all grants for ESOL instructional services with the Montgomery Coalition for Adult English Literacy (MCAEL) to improve the efficiency and coordination of these services within the County. The associated costs for this are shown in a newly established Non-Departmental Account for the contract with MCAEL.

With resources provided by the recently enacted recordation tax premium, I am recommending over \$2.6 million in expanded Rental Assistance programs to be provided by the County Departments of Health and Human Services, Housing and Community Affairs, and the Housing Opportunities Commission.

I recommend \$119.3 million for the Maryland-National Capital Park and Planning Commission budget, which represents a 4.0 percent increase over the FY08 Approved Budget and is a 4.5 percent increase for the Commission's tax-supported budgets.

## Investing in Our Workforce

As required by law, I am recommending funding the contracts with the County Government's employee representative organizations. This budget reflects the results of recent contract negotiations with the Municipal and County Government Employees Organization (MCGEO) and the Fraternal Order of Police over group insurance and retirement benefit issues as well as with the Montgomery County Volunteer Fire and Rescue Association (MCOVFA) and the International Association of Career Firefighters on all contractual issues.

In addition, I am recommending continued funding to support the provision of promised health insurance benefits to County retirees. However, due to fiscal constraints we are recommending that we revise our previous plan for phasing in the funding for this benefit from five years to eight years. This will free up tax-supported resources that can be invested in preserving existing services.

In the past too much focus was put on the accounting requirements related to this benefit. The truth is that if funding does not exist for this benefit, the benefit itself is not secured.

To approve health benefits for future retirees without funding those benefits is not responsible – it breaks faith with retirees who will need to know the money is there when it is needed. We have long accepted the concept of pre-funding of pension benefits because it is a responsible and cost effective approach to fulfilling our promises to retirees. We need to embrace the need to realistically fund this commitment as well.

To ensure that the County sets aside the funds needed for promised health benefits, I am recommending that the appropriation for each agency, including Montgomery County Government, condition the spending authority of that Agency on its contributing the scheduled amount of funds for Retiree Health Benefits into a trust created to manage the funding for and payment of these benefits.

Because we are projecting a long-term imbalance between expenditures and revenues we need to focus on solutions that are continuing in nature. For this reason I am recommending creation of an early retirement incentive program. While all of the details surrounding this plan need to be further defined, we are estimating savings of approximately \$5 million in FY09 through this program.

This budget proposes to abolish approximately 225 positions in Montgomery County Government. These reductions include an estimated 50 positions that would be permanently abolished as part of the early retirement incentive program. While it was a difficult decision, the elimination of these positions will create substantial long term savings that will contribute to realigning expenditures with revenue growth.

## Funding the Budget

I recommend total growth in our tax-supported budget of 3.2 percent – or \$117.4 million – over the FY08 Approved Budget. My total FY09 budget – including debt service, grants and enterprise funds that generate their own revenue – is recommended at \$4,324.3 million, up \$161.8 million over the FY08 Approved Budget – or 3.9 percent.

In order to preserve essential services, I am recommending an increase in property taxes of \$128 million. For the median house in the County, assessed at \$343,200, the homeowner will see a \$138 hike – a 6.2 percent increase. An estimated increase at the Charter Limit Rate would have been 3.6 percent, or an increase of \$80. A homeowner whose home is assessed at \$220,000 (21 percent of County homes) would pay \$56 less in property taxes (a 4.7 percent decrease), while a home assessed at \$500,000 would pay \$383 more – an 11 percent increase. We will promote existing mechanisms for senior citizens and those on fixed incomes to assist them as needed with property tax increases.

Water and sewer rates increase by 8.0 percent in FY09 in accordance with the budget recently approved by the Washington Suburban Sanitary Commission (WSSC). In addition, certain other fees will need to be increased and new fees will be implemented to cover rising program costs. Details on fee increases are provided in the How to Fund the Budget section of my Recommended FY09 Operating Budget.

## Final Thoughts

I want to thank those who contributed to the development of this spending plan including the Board of Education and Superintendent at Montgomery County Public Schools; the Trustees and President of Montgomery College; the Chair of the Maryland-National Capital Park and Planning Commission and the Planning Board; the Commissioners and General Manager of the Washington Suburban Sanitary Commission; individual residents, as well as members of boards, commissions, and committees; community-based organizations; and directors, employees, and employee representatives of departments in all agencies.

Highlights of my recommendations are set forth on the following pages and details can be found in the departmental sections. The full budget can be viewed on the County's website at [www.montgomerycountymd.gov](http://www.montgomerycountymd.gov). Details of the budget requests for Montgomery County Public Schools, the College, Maryland-National Capital Park and Planning Commission, and Washington Suburban Sanitary Commission can be seen in the separate budget documents produced by those agencies.

I look forward to working with the Council over the next two months on spending priorities and policy issues that arise and have asked Executive Branch staff to assist you in your deliberations.

# Letter from the Board of Education

March 1, 2008

The Honorable Isiah Leggett, County Executive  
The Honorable Michael Knapp, President,  
and Members of the County Council  
Montgomery County Government  
Rockville, Maryland 20850

Dear Mr. Leggett, Mr. Knapp, and Council Members:

On behalf of the Montgomery County Board of Education, I am transmitting the Fiscal Year 2009 Operating Budget for the Montgomery County Public Schools (MCPS). This budget builds on the many academic successes our students have achieved over the last eight years and provides the necessary resources we need in these austere times to continue our successful academic reforms. While we know that this is a difficult budget year, we strongly believe that this is not the time to retreat from the investments that have yielded such remarkable progress for our children.

The \$2.1 billion FY 2009 Operating Budget includes an increase of \$110 million over the FY 2008 budget, a 5.6 percent increase, excluding the county mandated contribution for future retiree health benefits. This is the lowest percentage increase since 1997. It funds the negotiated agreements with our employee associations and includes targeted investments to continue efforts to reform and improve middle schools, strengthen special education, improve high schools, and add more counselors and elementary assistant principals.

The majority of our budget pays for the talented and dedicated women and men who devote their lives to educating the young people of our community. The Board is proud of the strong positive relationship we have with employees and their associations, and we fully support the funding of the five percent wage increase.

We work diligently to ensure that our dollars are spent wisely and effectively. In fact, to fund our initiatives this year, we offset the roughly \$10 million in expenditures with a proportionate amount of cuts in other programs. We continue to devote nearly 80 cents of every dollar to instructional programs and central administrative costs remain among the lowest in the state for any school district at two percent.

Without a doubt, we believe the academic success of our students is a direct result of our community's investments over the last eight years. Consider our students' record of achievement:

- The Class of 2007 set numerous historic highs in participation and performance in Advanced Placement (AP) courses. The Class of 2007 broke the previous AP record set by last year's seniors with 60 percent of the class taking at least one AP exam and 46 percent scoring well enough to earn college credit.
- The performance of the Class of 2007 on AP exams was three times higher than the national average for 2007 graduates and more than twice as high as the average for graduating seniors in Maryland. African American and Hispanic students in MCPS outscored the national average for **all** students as well.
- *Newsweek* magazine once again ranked all 23 eligible high schools in the top 3 percent in the nation, including 5 in the top 100 and 4 in the top 70.
- 93 percent of kindergartners are reading simple text, and there is virtually no achievement gap in reading between White students and their African American and Hispanic peers.
- 56 percent of eighth graders completed Algebra 1 last year and 67 percent of this year's eighth grade class are enrolled in this gateway course.

The FY 2009 budget reflects significant community input and the participation of our parents and employee associations in the development of the budget. We held two exceptional community meetings in the fall where we received a great deal of parental and student feedback that helped us shape this budget. You will see their priorities reflected in our initiatives whether it's middle school reform or additional counselors or parent community coordinators. The Board and the superintendent are committed to continuing our efforts to increase parental involvement not only in the budget process but in the educational process as well. We want our parents to be true partners in the education of their children.



The Board did approve one amendment to the superintendent's proposed budget that underscores our focus on middle school reform; increasing the number of schools included in the initiative from nine to ten in the 2008-2009 school year. There are currently five middle schools in the first phase of middle school reform. The amendment didn't add any additional cost to the superintendent's budget because it offset the expense by not adding as many lunch hour aides as the superintendent had proposed.

Overall, middle school reform accounts for the majority of the \$10.2 million in initiatives in this budget. In addition to expanding the reform efforts to 10 schools, the \$5.3 million in the budget will assist us in developing 21 innovative courses in other middle schools and continuing the Middle School Magnet Consortium of Argyle, Parkland and Loiederman middle schools.

The remainder of the \$10.2 million in initiatives will provide \$1.5 million to expand the hours-based special education staffing model to three additional middle schools—for a total of 16 middle schools—and allow us to increase the number of elementary teachers for classes with large numbers of special education students.

The final \$3.4 million of the initiative plan will pay for 10 elementary assistant principals, six school counselors and six parent-community coordinators, the expansion of the Poolesville High School magnet to 11th grade, the addition of International Baccalaureate programs at Kennedy and Seneca Valley high schools, and the expansion of a program to help ESOL high school students who come to us with interrupted education.

Together, our investments along with the continued strong management of the school district will enable us to continue the extraordinary progress we have made together over the last eight years as we continue to focus on closing the achievement gap and raising academic achievement for all students. The Board looks forward to working with County Executive Leggett and with the County Council as you begin your budget deliberations for the FY 2009 budget. As always, we stand ready to assist in any way possible as we all work together for the benefit of our students in Montgomery County.

Sincerely,



Nancy Navarro  
President

NN:mmg



February 7, 2008

Office of the President

The Honorable Isiah Leggett  
Montgomery County Executive  
Executive Office Building  
101 Monroe Street  
Rockville, Maryland 20850

and  
The Honorable Michael Knapp, President  
Montgomery County Council  
and  
Members of the Montgomery County Council  
Stella B. Werner Council Office Building  
100 Maryland Avenue  
Rockville, Maryland 20850

Dear Mr. Leggett, Mr. Knapp, and  
Members of the Montgomery County Council:

The Board of Trustees of Montgomery College respectfully transmits for your consideration the Adopted College Operating Budget for FY2009.

Thank you for the opportunity to share the College's budget priorities with you. We understand that you are considering an array of high priority budget needs. We also know that revenue growth has slowed and that demands to serve more constituents have accelerated, creating a year of extraordinary challenge for the County.

As part of our internal budget process, the College makes every effort to use its resources wisely, to create new efficiencies, and to reallocate funds for pressing priorities. The fact remains, however, that we cannot meet current capacity challenges without continuing to open new facilities and renovate existing facilities. Demands on our resources are escalating. Spiraling benefit costs are taking a toll. And we are experiencing an enrollment surge — especially among full-time students.

The specifics of our request follow.

#### Enrollment

A 2003 statewide study on capacity issues in higher education shows that while enrollment is expected to grow across the State, the greatest increases will occur right here in the Washington Metropolitan area. The College experienced steady growth in student enrollments from fall 2000 through fall 2007. Over this seven-year period, enrollment grew by almost three thousand students (2,943) — an increase of more than 12 percent. And because an increasing number of these students are younger and attending full-time, our credit hours of enrollment have jumped even more dramatically — by 19 percent (more than 40,000 credit hours). Since last fall, our student headcount is up 4.3 percent and hours of enrollment are up 5.2 percent. The credit hour growth this fall exceeded our budgeted level by 5,405 hours or 2.5 percent.

The Honorable Isiah Leggett  
The Honorable Michael Knapp  
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The major factors driving these increases are: 1) the continuing growth in the number of high school graduates in the County; 2) the enrollment limitations and substantial tuition increases at the University of Maryland College Park and other public four-year institutions in the State; 3) Montgomery College's quality, affordability, proximity, and track record in preparing students for careers and transfer to four-year institutions. A fourth factor — for which we remain grateful — is the County's continued commitment to the College's facilities, faculty, staff, and programs. The County's investments in our facilities and, in particular, our Takoma Park/Silver Spring (TP/SS) Campus are paying off in dramatically higher enrollments. Since fall 2000, TP/SS enrollment has grown by 45 percent and enrollment hours are up by more than 40 percent. In the last year alone, our TP/SS Campus experienced an 8 percent enrollment increase, with a 10 percent increase in enrollment hours.

Clearly, these investments dramatically enhance the College's ability to serve our community. They enable us to expand access to postsecondary education, particularly for students who would otherwise be much less likely to attend college. College attendance rates for Hispanic and African-American high school graduates are traditionally lower than for other groups, but at Montgomery College, their attendance rates are increasing, a sure sign that our initiatives to encourage and support their enrollment are working. Younger students tend to enroll full-time, and full-time students have higher return rates — factors that support our positive enrollment projections for the next several years.

We estimate that student enrollment for next fall will grow by almost two percent (1.7 percent), and enrollment hours by more than three percent (3.6 percent). This fall, our enrollment growth (5.2 percent) doubled the 2.6 percent increase we had anticipated. As part of the expected increase next fall, we project that the number of full-time students will grow to 40 percent of the student population, up from 39 percent last fall. We also anticipate that the number of students needing academic support services will increase. Numerous studies report that institutions that provide support for student life activities, learning and tutoring centers, financial aid, and other vehicles to foster greater student engagement enhance student retention, progress, and success. The College needs the County's continued support for new classrooms, laboratories, faculty, and support staff to continue to provide these opportunities for the County's students.

#### Revenue

For fiscal 2009, we are requesting an additional \$8.8 million in County funding, an increase of 9 percent. State revenue is anticipated to be \$32.7 million, a 14.2 percent increase from the prior year. This is the second year of the six-year phase-in of the new Cade funding formula, which will gradually rise from 25 percent of the University System of Maryland (USM) base funding to 30 percent. However, the State's fiscal outlook remains uncertain, and a reduction in our State funding remains a possibility. Should this happen, we will ask the County to pick up the resulting shortfall. It is not an encouraging sign that the State has already reduced our aid for the current fiscal year by \$360,000.

Tuition and related fees are expected to generate \$68.6 million, an increase of 9.2 percent. This budget includes a \$3/\$6/\$9 per credit hour increase in tuition (in-County, in-State, out-of-State). With these proposed increases, the average full-time student will pay almost \$4,000 annually. (It should be noted that the tuition increases are not final until the Board of Trustees officially acts on tuition rates in April.) The remainder of the College's revenue is comprised mainly of other student fees, interest income, and use of fund balance.

#### Expenditure Request

The Current Fund budget request of \$215 million is a 9.3 percent increase from FY2008. It was developed with these priorities in mind:

- ensuring access to higher education, which requires an adequate cadre of faculty to teach our students
- keeping a Montgomery College education affordable
- paying competitive salaries that attract and retain the best faculty and staff
- ensuring a safe environment for the College community
- continuing to fund existing projects that benefit the community

Our budget request is based on the following considerations:

#### Supporting Students

- Enrollment increases drive up the College's need for additional faculty. In addition, our younger students demand and require more time with faculty. This budget includes a request to fund 18 new faculty positions to maintain the current ratio, with 58 percent of instruction delivered by full-time faculty and 42 percent by part-time faculty. In addition, more full-time faculty enable the College to provide a comprehensive array of courses, particularly in the sciences, English, and nursing, which will help address workforce shortages in the health care professions. The College would need to add another 14 full-time faculty to reach the 60 percent full-time threshold, a goal that has been supported by the County Executive and the County Council. FY2008 marks the first time in many years that the budget has provided for less than 60 percent of instruction to be delivered by full-time faculty. Eighteen new faculty at a total net cost of \$750,000. Another consideration is that hiring qualified part-time faculty is becoming increasingly difficult.
- The College has included in its request an additional \$290,000 to increase student financial aid. Of this amount, \$200,000 would go to the MC Access Program, which covers the cost of tuition, fees, and books for low-income MCPS high school graduates with a combination of federal, state, and institutional grants and scholarships. The program covers up to 15 credit hours per semester, fall and spring, for two consecutive academic years. Approximately 150 students would be served by the program if additional institutional grant funding is available. Current Federal and State financial aid is insufficient. The other \$90,000 would increase Board of Trustee (BOT) grants. The College did not have sufficient institutional grant money to fund all of the students who qualified for assistance in 2006-07. In fact, 6,516 financially needy students qualified for institutional grant funds, but received no grant aid due to a lack of funds. Of this group, 2,831 students did not enroll at Montgomery College during the 2006-07 academic year.
- This budget also includes \$645,000 to improve our academic programs and support to students. Enhanced student services includes funds for Disability Student Support and a technology specialist; academic program support includes modest amounts for English, the sciences, and international initiatives.

Compensating our Employees

- This budget includes funds for salary improvement, which is driven primarily by our collective bargaining agreements. In addition, the College must remain competitive with other colleges in terms of its ability to hire part-time faculty. In the face of this challenge, the College seeks to increase the part-time faculty salary rate by 7 percent (\$9.3 million).
- In the benefits area, we have included funds for postretirement benefits in the amount of \$606,400 and, as instructed by our actuaries, an additional \$400,000 for our Aetna retirement program. Benefits increases totaled \$2.6 million.

Facilities

The cost of opening our new facilities totals \$2.2 million and represents 12 percent of our requested increase.

Takoma Park/Silver Spring Expansion

- The Takoma Park/Silver Spring Campus expansion is in its final phase with the construction of the Cultural Arts Center and a parking garage. The new Cultural Arts Center, a 52,350 square foot performance arts facility, is currently under construction. The Cultural Arts Center will house a main theatre (music and dance) with seating for 513 patrons, a studio theatre seating 126 patrons, costume, prop and scene shops, a green room for performers, a dance studio for 30 students, four general purpose classrooms, and a film editing lab. The Cultural Arts Center complements the Silver Spring Arts and Entertainment District and will be a venue for collaborations with the AFI Silver Theatre and other area performing groups to offer enriching cultural and educational activities. (Cost \$1,463,000)

Goldenrod Building

- The Goldenrod building is approximately a 67,000 square foot building and is located at 20271 Goldenrod Lane, Germantown, Maryland. Half of the building will be used for classroom and office space for the Germantown Campus. Montgomery College will share this building with Montgomery County's Department of Economic Development, which will use approximately 33,500 square feet for the Germantown Incubator. This high-tech incubator will feature laboratory and office space. Note that part of this expense is offset in other revenue as a sublease to the County Government. (Cost: \$200,000)

West Gude and Other Leased Space

- The College continues to move some of its central operations to a new rental property on Gude Drive and a new space for a warehouse. Information technology infrastructure and rental costs total \$512,000. The movement of these functions off the Rockville Campus enables us to provide more classrooms, faculty offices, and student life space to serve a growing student population.

Other Funds:

Emergency Plant Maintenance and Repair Fund

The Emergency Plant Maintenance and Repair Fund (EPMRF) is the other fund, besides the Current Fund, that is included in the Spending Affordability Guidelines. For this fund, we are requesting an appropriation of \$350,000 and County funding equal to last year's amount (\$250,000). This is crucial support for addressing our myriad emergency maintenance needs.

Workforce Development and Continuing Education (WD & CE)

The appropriation request for this fund is \$14.4 million. The budget includes funds for the relocation of noncredit School of Art and Design programs from the former Maryland College of Art and Design building to the Morris and Gwendolyn Cafritz Family Foundation Art Center in FY2008 and expanded opportunities at the Germantown Campus for up-county residents. This fund is an enterprise fund, and therefore no County funding is requested.

Auxiliary Enterprises

The appropriation request for this fund is \$5.8 million. Auxiliary Enterprises is requesting an increase in FY2008 funding for one-time purchases to equip the new childcare center in Germantown and to continue equipping the Takoma Park/Silver Spring Student Services Center. This fund is an enterprise fund, and therefore no County funding is requested.

50th Anniversary Endowment Fund

The College is requesting appropriation authority of \$250,000 for three endowments in the areas of business, arts, and community outreach. The Business Endowment will help fund the planning for the Germantown Biotechnology Park. The Arts Endowment will fund programs in our Arts Institute, and the Community Outreach Endowment will be used to support the International Education Grant Program. No County contribution is requested.

Transportation Fund

This fund is comprised entirely of user fees from our students and employees. The money will be used to pay for the lease costs related to parking garage construction at all three campuses. The first garage will be built at the Takoma Park/Silver Spring Campus and is scheduled to open fall 2009. Through this fund, the College also pays the County for free Ride-On bus service. The College is requesting that the County pay one-half of this \$550,000 charge so that the balance can be used to pay for urgently needed parking garages.

Grants

The College is requesting appropriation authority in the amount of \$20.8 million. Of this amount, \$400,000 is requested in County funds for the Adult ESL/ABE/GED program, the same amount as FY2008.

Cable Fund

The amount requested is \$1,396,600 and is funded through the County Cable Plan.

Major Facilities Reserve Fund

The College is requesting appropriation authority in the amount of \$2.4 million for lease payments to the Foundation for lease of the Cafritz Foundation Art Center. This fund is totally comprised of user fees, and no County funds are requested.

Conclusion

In summary, the Montgomery College budget for FY2009 consists of a request of \$215,035,603 for the Current Operating Fund. Of this amount, we are requesting \$107,414,899 from the County. The College also is requesting \$350,000 for the Emergency Plant Maintenance and Repair Fund, of which \$250,000 is requested in County funds; \$20,807,500 for Federal, State and private grants and contracts of which \$400,000 is requested in County funds for the Adult ESL program; and \$1,396,600 for Cable TV (budgeted in the

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The Honorable Michael Knapp  
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County's Cable Communication Plan). An additional \$22,670,849 is budgeted for the self-supporting funds of WD & CE, Auxiliary Enterprises and Transportation Fund, \$2.4 million for the Major Facilities Reserve Fund, and \$250,000 for the 50<sup>th</sup> Anniversary Endowment Fund. The Board of Trustees respectfully requests total expenditure authority of \$262,910,552. In addition, we are requesting that the County fund one-half the \$550,000 cost of the Ride-On bus service offered to our students. The amount requested is \$275,000.

We appreciate your careful review and consideration of this budget request. We look forward to working closely with all of you.

Sincerely yours,



Roberta F. Shulman  
Chair, Board of Trustees



Brian K. Johnson, Ed. D.  
President

January 15, 2008

The Honorable Isiah Leggett  
Montgomery County Executive  
Executive Office Building  
Rockville, Maryland

The Honorable Michael Knapp  
President, Montgomery County Council  
Stella B. Werner Council Office Building  
Rockville, Maryland 20850

Gentlemen:

The FY 2009 Proposed Budget for the Maryland-National Capital Park and Planning Commission is designed to maintain progress made in FY 2008 toward restoring the quality of Montgomery County's growth management, planning, and land use regulation and to continue improvements in the management of our nationally recognized parks. This budget recommends funding levels required to sustain programs that were established by Council action in the current year as well as a limited number of new initiatives designed to keep our policies and programs at the leading edge of best practices in both planning and parks.

#### **KEY COMPONENTS OF THE PLANNING BUDGET**

##### **Continuing Reform of Development Review**

As a result of substantial increases in staffing authorized in FYs 2007 and 2008, and an extraordinary effort in recruitment of new staff, significant advances have been made in improving the regulatory programs of the Commission. During FY 2008, we expect to meet all but one of the objectives for the year that were stated in the budget message:

- The Development manual has been adopted and is being implemented.
- The rigor of staff analysis and project reviews has improved.
- The time for processing applications has been reduced and regularized.
- Board resolutions are being produced in a more timely manner, with the aim of no more than a 3-week delay between initial Board action and the final resolution. The turnaround on uncontested cases is frequently one week.
- Revisions of the Forest Conservation Law have been presented to the Council for its action and improvements have been made in the consistency of its administration.
- Service to applicants and the public has improved.
- A Memorandum of Understanding with the Department of Permitting Services has been executed and new software has been acquired to provide interoperability and full communication between our agencies in the use of the Hansen system.



- The backlog of cases will be significantly reduced in FY 2008, but it will not be completely eliminated. We expect to achieve that goal in FY 2009, including all of the remaining compliance cases.
- New enforcement regulations should also be in place before the beginning of FY 2009. This will complete a major revamping of development review and forest conservation procedures on enforcement of violations to increase their transparency and consistency.

The slowdown in the building industry can be expected to reduce the number of new development applications filed in FY 2009. This provides some "breathing room" for new staff to learn the system and an opportunity to eliminate the backlog of cases. It also means a substantial reduction in revenues for the Special Revenue Fund for Development Review and places a greater burden on the Administration Fund to maintain an experienced and stable staff. This situation is discussed more fully below.

In response to the Council's request, we are in the process of refining a set of performance measures for our development review activities and these will be finalized and ready for the Council's review as the budget is taken up for discussion this spring.

### **Zoning Ordinance Revisions**

With Council approval, the Planning Board began work in FY 2008 on revision of the zoning ordinance. Significant community outreach and education efforts on this project have been undertaken. We expect to present revisions of zones for central business districts and transit station areas by the end of the current fiscal year, as well as an overall "code diagnosis" to lay out the project's big picture goals. The principal focus of revisions in other non-residential zones will be the focus of work during FY 2009.

### **Completion of Growth Policy Projects**

In adopting the 2007-2009 County Growth Policy, the Council assigned a number of new tasks to the Planning Board. This budget includes support for those tasks that were not scheduled for completion in FY 2008. It also includes funding for implementation or continuation of work flowing from the Growth Policy, and work that must be completed in FY 2009 to prepare for the next Growth Policy cycle. These tasks include:

- Expanding the database of intersection traffic counts and travel time studies.
- Participation in a study led by Executive agencies on issues arising from the Growth Policy involving the role of impact tax in infrastructure financing, including further refinement of land use categories, consideration of impact taxes for facilities other than those for transportation and education, and the "linkage" between non-residential development and affordable housing.
- A comprehensive parking study.
- A study of possible revisions to the Local Area Transportation Review test.
- A study of options for increasing efficiency in allocating development capacity.
- A study of the County's Housing-Jobs balance, including implications for housing affordability and traffic congestion.

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- Completion, in cooperation with the County Executive, of a set of Sustainable Quality of Life Indicators.

### **Master Plan Completions and Initiatives**

During FY 2008, the Board has had a number of sector and functional plans in development. It has also undertaken a study of how to improve the planning process with an objective of reducing the elapsed time for production of a Final Draft Plan that can be presented to the Council for its approval. Two other studies that will be completed in FY 2008: the I270/MD 355 Corridor Concept Study and the Infill Housing Task Force Study.

The Board will deliver plans for Twinbrook and the White Flint Core Area in FY 2008. Council action on these plans and the Sectional Map amendments to implement their land use recommendations may extend into FY 2009. A plan for the Germantown Employment Corridor should be delivered to the Council in the first quarter of FY 2009, with action on it and the Sectional Map amendment completed during the remainder of the fiscal year.

In FY 2009, we anticipate being able to allocate more work years to plan preparation as the demands on community planning staff for participation in development review temporarily declines. Upcoming master plan work can be summarized as follows:

- Council Worksessions to complete work begun in FY 2008 on:
  - Twinbrook
  - White Flint Core Area
- Delivery to Council in FY 2009 of Studies, Plans and/or Sectional Map Amendments for:
  - Germantown Employment Corridor
  - Gaithersburg West/Life Sciences Center
  - Battery Lane
  - White Flint, Phase II
  - Wheaton CBD
  - Georgia Avenue Corridor Concept Study
  - Housing Policy Study
- Work on the following plans will be largely completed in FY 2009, but delivery to Council will occur in FY 2010 for:
  - Kensington-University Boulevard
  - Takoma/Langley (prepared by the Full Commission)
  - Green Infrastructure
  - Purple Line
- Other FY 2010 Plans to be delivered:
  - Westbard
  - Glenmont
  - Water Resources
  - Energy and Environment Framework
  - ICC Bikeways
  - Master Plan of Highways Update

### **One New Initiative: A Comprehensive Long-Range Plan for Public Infrastructure**

This budget proposes only one new planning initiative—a comprehensive long-range infrastructure plan to provide an analysis of and strategy for meeting the county's needs for the next 20-30 years. The plan will be prepared with the assistance of a task force that includes public agencies and utilities. It will compare existing and programmed infrastructure with recommendations of approved master and functional plans and agency forecasts of needs for new facilities and replacement of those that are beyond repair or have become obsolete. It will then provide cost estimates for meeting these needs and recommend strategies for addressing them, building on the recommendations of the task force on infrastructure financing. This plan will provide a basis for evaluating the extent to which the biennial CIP is keeping pace with the county's facility needs. It also will provide an assessment of the priorities placed on both the types of capital projects and the timing of their provision.

### **A New Procedure: Limited Master Plan Amendments**

Situations have increasingly arisen—especially in areas where master plans have not been revised in more than 10 years--where zoning or other policies recommended by those plans for one or more projects are no longer economically feasible or best serve the public interest. Where private property is involved, a common response has been to seek a zoning text amendment to allow a project to proceed that the master plan would otherwise prohibit. This "back door amendment" approach often has unintended consequences for other properties and tends to undermine public confidence in the integrity of master plans.

This budget proposes allocating some staff resources to a Limited Master Plan Amendment process, which would provide a more orderly procedure for identifying those master plans where amendments of limited scope would be in the public interest and replace outdated recommendations with policies better attuned to current and future needs. This approach would also result in a process that is more transparent and understandable to the public than the use of zoning text amendments to rectify what are essentially master plan issues.

### **A Summary of Planning Department Budget Increases**

An increase of \$5,137,300 above the FY 2008 Approved Budget for the Planning Department is requested. The requested staffing increases are 7.4 workyears, which is 6.90 new workyears and 0.5 for the annualization of two term workyears approved in supplemental. These increases are allocated among the programs of the department as follows:

Program	Increased \$	Workyears
Master Plans	2,206,430	5.85
Plan Implementation	226,800	2.65
Information resources	1,778,500	1.55
Management/Administration	(176,300)	(2.65)

(25)

The principal master plan program elements that involve one or more new workyears are the Energy and Environment Framework Plan (1 wy) and the Comprehensive Long-Range Infrastructure Plan (1.75 wy). One work year has been requested to assist in transportation planning regulatory review required by the new Growth Policy. One additional work year is requested for information technology. The remaining requested new workyears would be assigned to work on multiple program elements as shown in the matrix and program element descriptions. Areas of significant reduction in work years are in program management (-1.4 wy) and work program support (-2.25 wy).

## **KEY ELEMENTS OF THE PARKS BUDGET**

### **Continuing Improvements to Performance**

Our park system is the most used public facility in the county and is among the most valued by residents. This budget continues the progress started in FY 2008 to bring our operational resources more in line with the expansion of the system and increasing intensity of use over the last decade. Given the fiscal restrictions the county faces, no one budget can achieve all that is necessary, but within those limitations, we strongly urge that we not lose ground.

Since FY 1999, park acreage grew by 15 percent while work years grew by only five percent. Field use has also grown, and 70 percent of our ball fields exceed national standards for use and over half of them experience use rates three times national standards. The result is a serious gap in maintenance and field quality. Due to insufficient staffing, playgrounds are receiving inadequate inspections and timely repairs. A recent study of park buildings and ancillary facilities estimated that there is a \$1.8 million backlog of deferred maintenance and replacement work to be done. The proliferation of non-native invasive plant species in parks endangers the health of the ecological communities for which the park system is the principal steward. Many of the historic and cultural sites on parkland are in peril of demolition by neglect due to inadequate resources to stabilize, let alone restore them. As we have increasingly required developers to not only dedicate but construct park facilities, we have not kept pace operationally with these additions to the system since they are not forecast in the CIP and their operating budget impact has heretofore not been considered in the operating budget process.

### **Program Enhancements**

The FY 2008 budget began the process of catching up to needs. It was also our first year experimenting with a radical new "program budget", giving us a much clearer picture of where the money is spent and where the needs are most severe. This FY 2009 budget continues that progress. It provides full-year funding for positions that were added in FY 2008 but funded for only part of the year. Enhancement of a number of programs is recommended in this budget to deal with emerging problems or to achieve adequate levels of service. Some modifications have been made on program descriptions to more accurately characterize and focus them, and some programs that have demonstrated success have been expanded. Details for these enhancements can be found in the budget data and justifications in the budget, but some of the most important are highlighted here:

**Streams** is a new program element in the Stewardship program. Its objective is to focus more attention and work on the quality of the 457 miles of streams and more than 500 ponds in the park system. The program will institute best practices to protect water quality and aquatic diversity, and work to improve public recreational experiences such as fishing, boating, hiking, and biking.

**Urban Parks**, a new initiative, is primarily a shift in focus in park planning, development and maintenance. It represents an overdue recognition that urban parks are different in design, scale, and intensity of use than our other parks. This program will work closely with planners and development review staff in identifying opportunities for high quality urban parks, and develop strategies for their acquisition, development, and effective management.

**Maintained Open Space** that is used extensively by park patrons, but is neither programmed for activities nor subject to the permitting process, remains one of the central concerns of the Department. These open spaces often include new park areas that are dedicated through the regulatory process, but are not included in the CIP's estimate of operating budget impacts (OBI). In this budget new work years authorized for this work in FY 2008 are annualized, and additional funding is also requested.

**Enhancement of Property Management** resources is recommended to improve the condition and usability of 175 leased facilities and land, and the management of new facilities that have recently been added to the system, such as the Warner House (Circle Manor), Hillmead, Hillandale/Barnett, and Wolfarth properties.

**Improving Athletic Field Quality and Playability** of our 296 athletic fields to reduce the incidence of field deterioration resulting from overuse and insufficient maintenance. The Department will establish an improved system for managing field closures and renovations based on use.

**Maintenance, repair and upgrades to our 31 Park Activity Buildings** is proposed to avoid structural failures in older buildings and generally improve the safety and, maintenance, and usability of these important community resources.

**Transforming historic buildings from artifacts to attractions.** In FY 2008 we have begun work, in cooperation with the Planning Department, on an inventory and documentation of sites that should be added to the Master Plan for Historic Preservation, and establishing priorities for the treatment, stabilization, restoration and adaptive use of historic properties in the Parks. We need an aggressive program, of which this is a modest start, to plan and manage adaptive uses for the 110 historic buildings in the park system. Currently, too many of them are vacant, subject to vandalization and exposure to the elements. The aim is to start bringing these resources into a program that not only preserves them but makes them part of a program for interpreting the county's heritage.

**Strengthening employee training and recognition** to ensure that our staffs, from top level managers to maintenance workers are kept abreast of best practices in park operations and management and that outstanding employees are recognized for their exceptional performance.

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The amounts recommended are very low, but they are a start on long overdue attention to employee development.

***Ensuring the safety and effective maintenance of our 289 playgrounds*** required additional resources to ensure that we are keeping up with the need to maintain and replace equipment in older down-county playgrounds as we add new up-county playgrounds to the system.

***Public and animal safety in equestrian facilities*** needs to be addressed to ensure that patrons and horses are properly protected in event of fire or other catastrophe. This involves education of employees and operators, safety information and education for users—especially children—and risk assessment of facilities, equipment, and on-site materials.

***A slight increase in the Park Ranger Program***, which has improved enjoyment of parks by helping reduce field scheduling conflicts without involving park police, increased user confidence in park safety, and strengthened communications with user groups.

## **FINANCIAL ISSUES**

The total request for tax supported funds, less reserve, for FY 2009 is \$124.1 million. This is an increase of 21.2% over the FY 2008 budget. *Approximately half of this increase is the result of meeting requirements of formula-based automatic adjustments to salaries or benefits established by law or contractual obligations; compliance with revised governmental financial standards, such as GASB 45; increases in fuel, electricity and other utility costs; full-year funding of salaries and benefits for positions that were authorized and filled but funded for only part of FY 2008.*

To use the Planning Department portion of the Administration Fund as an example, the total increase in the budget is approximately \$5.1 million, or 28.1%. Roughly one-third of the increase, or \$2.1 million, is funding to transfer to the Special Revenue Fund for Development Review which is expected to produce less revenue in application fees because of the recession in the building industry. Another approximately \$2.2 million is needed to continue our same service delivery including: COLA, merit increases, benefit increases (second year of the GASB 45 implementation), annualization for FY 2008 new hires and reduced budgeted salary lapse from 7.5% to 4.5%. Approximately \$1.3 million is needed to continue and enhance existing projects that were assigned in FY 2008 and must continue in FY 2009. In reality, only about \$0.5 million of the \$5.1 million increase in the budget can be considered new initiatives. A similar story exists in the Parks Department. Even if we had no new initiatives or enhancements of existing projects, we estimate that at least an 11% budget increase would be necessary to cover required costs. Further information can be found in the appropriate sections of this budget.

Because of their importance to the operations of the respective departments, the special need of the Development Review Special Revenue Fund and the Parks Enterprise Fund are discussed in some detail below.

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### **The Special Revenue Fund for Development Review**

\$2.1 million is requested to be appropriated from the Administrative Fund to maintain the development review capacity of the planning staff. Revenues from application fees are expected to be substantially lower in FY 2009 as a result of the sharp decline in the building activity.

In 2006, the County Council approved a substantial increase in application fees for development projects and expressed its view that fees should cover 100 percent of the cost of reviewing applications. Fees were initially set to cover the costs of the Development Review Division. The rates established at that time did not cover costs of other divisions that participate in the development review process because the extent of their involvement was not known. Subsequently, the establishment of program budgeting and better time keeping has revealed a substantial contribution to the development review process by the Countywide Planning, Community Based Planning, and Research and Technology divisions, as well as the General Counsel's Office. In FY 2007 a surge in applications occasioned by delays in the effective date for an increase in impact taxes produced a surplus in the Special Revenue Fund. For FY 2008, the estimated revenue from fees was reduced but even the reduced estimate is unlikely to be achieved due to the slowdown of development activity. Moreover, the size of applications is declining as large tracts of raw land are no longer available for large housing projects. As a result, the actual revenue obtained from applicants will fall well below initial estimates. As the development economy does not appear to be poised for a strong recovery in FY 2009, the revenue estimate is lower still.

It is reasonable and prudent public policy to recover a major portion of the costs of review from project applicants. It is not sound policy to equate the cost of review with the costs of maintaining a professional staff that conducts the reviews. There are two reasons:

First, while applications ebb and flow with economic currents that are beyond the control of the county, seasoned staff cannot be furloughed and recalled in concert with the business cycle. It is important to maintain an experienced staff to manage the normalized pace of such business.

Second, during periods of intense development activity, it becomes necessary to assign additional staff from other divisions or to employ consultants to review projects. And in slack periods, staff are occupied retiring the backlog of applications that have accumulated, and once that job is complete, they are reassigned to work on community plans and special projects such as revision and updating of land use regulations. While the backlog of applications that accumulated during the 2005-2007 period of severe understaffing has now been considerably reduced as a result of the increases in staff authorized by the Council in FYs 2007 and 2008, a number of major projects remain, including compliance programs arising from the Clarksburg violations.

In financially lean years for application fees, the Administration Fund must provide the difference in order to maintain the staff complement. In fat years, a surplus will accumulate that can reduce the need for tax revenues. As we gain more experience it will be possible to improve

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the annual estimates for this fund, but with less than two full years of experience, which occurred on opposite sides of the building cycle, that cannot yet be done with any confidence. Our estimate for FY 2009, therefore, is conservative and based on our best judgment that for the next fiscal year the market will remain sluggish and revenue from development applications will be lower even than in FY 2008.

### **Park Enterprise Fund Issues**

Enterprise Fund expenditures are proposed for FY 2009 at \$10.5 million, a modest 6.0% increase over FY 2008, which is mostly attributable to utility costs. The increase is offset due to the reduction of 5.7 workyears and a nearly 13% reduction in chargebacks from other funds. Other than rising utility costs, the two main issues, confronting the Fund are revenues and debt service.

Estimated revenues in FY 2008 are falling far short of expectations. At \$9.2 million, they will be \$0.8 million below the FY 2008 budget target. This is largely the result of the Commission having to close both the Cabin John Indoor Tennis Facility and the Wheaton Indoor Tennis bubble for repairs during the peak winter months. The new shell for Wheaton was destroyed twice by high winds, adding to delays and revenue losses. This will mean a significant reduction in our cash flow in the Fund, drawing it down well below the level recommended in the Commission's fiscal policy.

Meanwhile, expenditures have increased. We found it necessary to add \$120,000 in security equipment thus far to all our Enterprise Facilities and additional employees at the Wheaton and Cabin John Ice Rinks to provide a safe working and recreation environment after two armed robberies. Utility costs continued to escalate and are projected to be \$230,000 higher than budgeted in FY 2008 and \$665,000 higher in FY 2009. We estimate that it will take the revenues from 74,000 public session skaters just to pay the increases in the utility bills for the ice rinks in FY 2009.

Unlike Enterprise facilities operated by the Commission's Prince George's County Department of Parks and Recreation and a majority of other similar public agencies in the country, debt service in Montgomery County is budgeted in the Enterprise Fund. In fact, debt service comprises almost 13% of our expenditure request in FY 2009. Although cumulatively across facilities user revenues cover operating costs, the razor-thin annual surplus in this Fund makes paying debt service impossible without a substantial hike in user fees or the elimination of facilities that cannot cover costs. Moreover, paying debt service makes it difficult to build up adequate reserves and retards our ability to plan and execute further capital improvements in the Fund. To break the cycle and enable us to begin rebuilding reserves, we are requesting an appropriation from the Montgomery County General Fund of \$640,500 in support of the Enterprise Fund. The Parks Department has brought aboard a new manager for the Enterprise Division who will conduct a comprehensive review of its operations and finances and recommend alternative approaches to achieving an appropriate balance among its cost and public service objectives.

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## **CONTINUING THE PATH TO EXCELLENCE**

This budget was prepared prior to the recent revenue forecasts for 2009. It is designed to maintain the progress made in both parks and planning and to lose no ground. It has limited new initiatives. We are still catching up with a backlog of work as well as taking on new tasks mandated by county and state policy makers. We recognize that our requests are substantially higher than the county guidelines, but we believe you are entitled to our best judgment of what is needed and what cannot be done if, in your assessment of competing needs and their implications for an acceptable level of taxation, full funding of this budget cannot be provided. The Board will work with you to achieve the best result possible with the funds available.

Respectfully,

A handwritten signature in black ink, appearing to read "Royce Hanson", written in a cursive style.

Royce Hanson, Chairman

(31)



# Washington Suburban Sanitary Commission

14501 Sweitzer Lane Laurel, MD 20707-5902  
(301) 206-8000 1(800) 828-6439 TTY: (301) 206-8345 [www.wsscwater.com](http://www.wsscwater.com)

March 7, 2008

To The Honorable:

County Executives of Montgomery  
and Prince George's Counties

President, Chair, and Members  
of the County Councils of  
Montgomery and Prince George's Counties

Valued Customers and Interested Citizens:

We are hereby presenting the complete Fiscal Year 2009 (FY'09) Proposed Capital and Operating Budget document for the Washington Suburban Sanitary Commission (WSSC). A preliminary FY'09 budget was published and distributed for review by interested customers, citizens, and officials. Public Hearings were held on Wednesday, February 6, and Thursday, February 7, 2008. On February 29, 2008, an abridged FY'09 Proposed WSSC Budget, copies of the public hearing transcripts, and all written testimony were transmitted to the County Executives and Councils of Montgomery and Prince George's Counties for hearings and other procedures as directed by Section 1-204, Article 29, Annotated Code of Maryland, before a final budget is adopted for the next fiscal year, beginning July 1, 2008.

The Commission is proposing an 8.0% rate increase to pay for escalating prices for operating and maintaining our plants, pipes and facilities including the cost of power, chemicals, and fuel. The Commission is also still catching up after six years of no rate increases (FYs '99-'04) and two years of rate increases below the rate of inflation (FYs '05-'06). The FY'09 rate increase will add approximately \$3.75 per month to the average residential customer's bill. The proposed budget reflects our continued focus on providing safe and reliable water, returning clean water to the environment, and doing it in a financially responsible manner. The impact on customers' annual water and sewer bills at various consumption levels is shown on Table IV (page 11).

However, our nation's infrastructure is aging and beginning to fail. The WSSC's water and wastewater systems are no exception. In 2007, the Commission set a record for the most water main breaks and leaks in a calendar year. During 2007, the WSSC registered 2,129 water main breaks and leaks, breaking the previous record of 1,827 in 2003.

We must plan for the timely repair, rehabilitation, and replacement of our infrastructure. Our grandparents and parents sacrificed to build safe and reliable water and wastewater systems. Ours is the first generation that must focus on replacement rather than repair. As such, the Commissioners acknowledged the need for expanded infrastructure renewal and agreed to continue dialogue on how to fund WSSC's infrastructure replacement needs. By addressing our aging infrastructure, we can help ensure the continued reliable delivery of drinking water and the proper treatment of wastewater for our customers in Montgomery and Prince George's Counties.

Last summer the Commission released the first phase of a 30-Year Infrastructure Plan that involved a broad examination of the condition and lifespan of all of the Commission's major assets. Among the findings of the report are:

- Renewal of the water system is driven primarily by the physical mortality of the buried piping. It is estimated that by 2025 approximately 50% of the entire distribution system will reach or exceed its useful life. There are approximately 2,000 miles of cast iron pipe in the distribution system (piping less than 16 inches in diameter) and over 85% of this pipe will exceed its useful life by 2025.
- Of the almost 5,500 miles of water mains the WSSC maintains, 1,300 miles are more than 50 years old. Another 2,400 miles of pipes are between 25 and 50 years old.
- The WSSC's wastewater collection system still has a substantial lifespan remaining. However, a significant investment in rehabilitation is required to realize that remaining lifespan. Additionally, three types of sewer pipes are in poor condition and several drainage basins will require significant attention over the next 30 years.

Our FY'09 budget includes funding at FY'08 levels for the continued replacements and rehabilitation of 27 miles of water lines and 51 miles of sewer lines. While this appears on the surface to be a significant amount of pipe, it will not be sufficient in the future to maintain the reliability of our systems. The Commission will study alternatives for increasing the pace of replacement, while being sensitive to the fragile financial condition of many of our customers.

The FY'09 estimated expenditures for all operating and capital funds total \$914.7 million or \$107.2 million (13.3 %) more than the FY'08 Approved Budget. The FY'09 Proposed Operating Budget of \$553.7 million represents an increase of \$27.8 million (5.3 %) from the FY'08 Approved Operating Budget. The proposed Operating Budget includes funding for: the first year of a five-year program to implement an Enterprise Resource Planning/Enterprise Asset Management system; increases in operating costs due to inflationary trends in all cost categories including chemicals, energy, and services utilizing fuel, such as biosolids hauling; additional sewer maintenance; the second increment of a 5-year phase-in to achieve full funding for liabilities related to post-employment benefits based on Governmental Accounting Standards Board Statement No. 45; additional workyears; and salary enhancements for employees.

### Comparative Expenditures by Fund

	FY'08 Approved	FY'09 Proposed	FY'09 Over / (Under) FY'08	% Change
<b><u>Capital Funds</u></b>				
Water Supply	\$142,820,000	\$185,620,000	\$42,800,000	30.0 %
Sewage Disposal	108,358,000	142,718,000	34,360,000	31.7 %
General Construction	30,403,000	32,637,000	2,234,000	7.3 %
<b>Total Capital</b>	<b>281,581,000</b>	<b>360,975,000</b>	<b>79,394,000</b>	<b>28.2 %</b>
<b><u>Operating Funds</u></b>				
Water Operating	195,208,000	212,541,000	17,333,000	8.9 %
Sewer Operating	253,224,000	269,738,000	16,514,000	6.5 %
Interest & Sinking	77,442,000	71,426,000	(6,016,000)	(7.8) %
<b>Total Operating</b>	<b>525,874,000</b>	<b>553,705,000</b>	<b>27,831,000</b>	<b>5.3 %</b>
<b>GRAND TOTAL</b>	<b>\$807,455,000</b>	<b>\$914,680,000</b>	<b>\$107,225,000</b>	<b>13.3 %</b>

The FY'09 Proposed Capital Budget of \$361.0 million represents a net increase of \$79.4 million (28.2%) over the FY'08 Approved Budget. The greatest increases are for additional infrastructure replacement and rehabilitation and increases in the Western Branch Wastewater Treatment Plant Enhanced Nutrient Removal and Bi-County Water Tunnel projects where construction work is expected to ramp-up significantly in FY'09. These increases are partially offset by decreases attributable to 20 projects closing out in the Capital Improvements Program.

#### **FY'09 Proposed Capital and Operating Budgets**

The proposed budget provides for continuing the high service levels our customers expect, aggressively complying with all environmental mandates, continuing ongoing programs to control and reduce costs, and providing a fair compensation adjustment package for our employees. Specifically, the budget provides for:

- Implementing the first year of the FYs 2009-2014 Capital Improvements Program;
- Promptly paying \$227.3 million in debt service on \$1.3 billion in outstanding debt to WSSC bondholders;
- Meeting or surpassing all federal and state water and wastewater quality standards and permit requirements;
- Keeping maintenance service at a level consistent with the objective of arriving at the site of a customer's emergency maintenance situation within 2 hours of receiving the complaint and restoring service within 24 hours of a service interruption;
- Paying the WSSC's share of the cost of operating the District of Columbia Water and Sewer Authority's Blue Plains Wastewater Treatment Plant;
- Operating and maintaining a system of 3 reservoirs impounding 14 billion gallons of water, 2 water filtration plants, 7 wastewater treatment plants, 5,500 miles of water main, and 5,300 miles of sewer main 24 hours a day, 7 days a week;
- Continuing to increase the operating reserve from 5% to 10% of water and sewer rate revenues;
- Funding the first year of a 5-year program to implement an Enterprise Resource Planning/Enterprise Asset Management System;
- Funding the second phase of a 5-year ramp-up to achieve full funding of liabilities for post-employment benefits other than retirement based on Government Accounting Standards Board Statement No. 45;
- Maintaining the Water and Sewer Reconstruction Programs at FY'08 levels;
- Providing funding for salary enhancements for employees; and
- Complying with the Sanitary Sewer Overflow Consent Order.

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In addition to reviewing expenses and revenues for water and sewer services, we have analyzed the cost and current fee levels for other WSSC services. Based upon these analyses, some new fees and adjustments to current fees are recommended in Table VII (page 14).

**Budget Review Process**

The Proposed Budget is subject to the Counties' hearings, procedures, and decisions, as provided under Section 1-204, Article 29, of the Annotated Code of Maryland, before the final budget is adopted for the fiscal year beginning July 1, 2008.



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Adrienne A. Mandel, Chair  
Washington Suburban Sanitary Commission

# SPENDING AFFORDABILITY COMPARISON

(Dollars in Millions)

A CATEGORY	B FY08 CC Approved (a) 5-24-07	C FY08 Estimate 3-17-08	D FY09 CE SAG 12-11-07	E FY09 CE Rec 3-17-08	F FY09 CE % Chg Rec / Bud	G FY09 CE \$ Chg Rec / Bud
Property Tax	1,207.5	1,209.5	1,243.9	1,385.2	14.7%	177.7
Income Tax	1,286.9	1,285.0	1,297.0	1,325.4	3.0%	38.6
Transfer/Recordation Tax	193.3	133.5	167.3	149.0	-22.9%	(44.3)
Other Tax	171.1	169.9	175.1	174.7	2.1%	3.6
General State/Fed/Other Aid	576.7	586.3	608.3	563.9	-2.2%	(12.8)
All Other Revenue	189.7	183.0	198.2	194.5	2.5%	4.8
<b>Revenues</b>	<b>3,625.1</b>	<b>3,567.2</b>	<b>3,689.7</b>	<b>3,792.7</b>	<b>4.6%</b>	<b>167.6</b>
Net Transfers In (Out)	11.5	11.3	11.8	34.1	196.3%	22.6
Set Aside: Potential Supplementals	0.0	(18.4)	0.0	0.0	n/a	0.0
Set Aside: Other Claims	0.0	0.0	(4.5)	(2.6)	n/a	(2.6)
Beginning Reserve: Total	316.1	399.5	220.4	261.9	-17.1%	(54.2)
Revenue Stabilization Fund	119.6	119.6	119.6	119.6	0.0%	(0.0)
Reserve: Designated	20.7	5.8	6.1	6.2	-69.8%	(14.4)
Reserve: Undesignated	175.8	274.1	94.6	136.0	-22.6%	(39.7)
<b>TOTAL RESOURCES</b>	<b>3,952.8</b>	<b>3,959.7</b>	<b>3,917.4</b>	<b>4,086.2</b>	<b>3.4%</b>	<b>133.4</b>
<b>APPROPRIATIONS</b>						
<b>Capital Budget:</b>						
CIP Current Revenue	(42.5)	(40.0)	(57.9)	(47.9)	12.7%	(5.4)
CIP PAYGO	(27.5)	(27.5)	(44.0)	(30.0)	9.1%	(2.5)
CIP PAYGO Rec Tax Undesignated	0.0	0.0	0.0	0.0	0.0%	0.0
<b>Operating Budget:</b>						
MCPS	(1,852.2)	(1,841.4)	(1,873.3)	(1,927.0)	4.0%	(74.6)
College, Total	(197.4)	(194.0)	(206.2)	(206.2)	4.5%	(8.8)
Less College Tuition	61.7	62.6	67.5	67.5	9.4%	5.8
College, Net	(135.7)	(131.4)	(138.7)	(138.7)	2.2%	(3.0)
County Government	(1,260.6)	(1,254.8)	(1,152.4)	(1,281.4)	1.6%	(20.8)
M-NCPPC	(98.4)	(97.2)	(90.0)	(102.9)	4.5%	(4.4)
Other: (Unallocated) / GAP	0.0	0.0	0.0	(0.0)	n/a	(0.0)
<b>Total Operating Budget:</b>	<b>(3,408.6)</b>	<b>(3,387.4)</b>	<b>(3,321.9)</b>	<b>(3,517.5)</b>	<b>3.2%</b>	<b>(108.9)</b>
<b>Debt Service:</b>						
All County Debt Service	(226.5)	(225.2)	(242.5)	(230.6)	1.8%	(4.1)
M-NCPPC Debt Service	(4.7)	(4.7)	(4.4)	(4.7)	0.3%	(0.0)
MCG Long Term Leases (b)	(13.0)	(13.0)	(18.9)	(17.4)	33.7%	(4.4)
<b>TOTAL APPROPRIATIONS</b> (incl. Capital, Operating & Debt Service)	<b>(3,722.8)</b>	<b>(3,697.8)</b>	<b>(3,689.6)</b>	<b>(3,848.0)</b>	<b>3.4%</b>	<b>(125.3)</b>
<b>Aggregate Operating Budget</b> (excludes College tuition)	<b>(3,661.0)</b>	<b>(3,635.2)</b>	<b>(3,622.0)</b>	<b>(3,780.5)</b>	<b>3.3%</b>	<b>(119.5)</b>
Revenue Stabilization Fund (new \$s)	0.0	0.0	0.0	0.0	n/a	0.0
<b>Ending Reserve: Total</b>	<b>230.0</b>	<b>261.9</b>	<b>227.9</b>	<b>238.1</b>	<b>3.5%</b>	<b>8.2</b>
Revenue Stabilization Fund	119.6	119.6	119.6	119.6	0.0%	(0.0)
Ending Reserve: Designated	5.7	6.2	6.8	9.0	57.4%	3.3
Ending Reserve: Undesignated	104.6	136.0	101.4	109.5	4.7%	4.9
<b>Maximum AOB without 6 votes ( c )</b> (Prior Year AOB + inflation as shown)	<b>(3,171.7)</b> 3.6%	n/a	<b>(3,537.6)</b> 3.6%	<b>(3,792.8)</b> 3.60%		

a) Based on latest revenue and expenditure estimates as prepared by Department of Finance and OMB.

b) Long term leases of Montgomery County Government are considered equivalent to debt service.

c) The guidelines adopted in December by the Council may be increased by "the projected net increase in available resources", applying the tax rates that were assumed in adopting that guideline, including any tax approved or repealed since adoption of the guideline MCC 20-60(c)(4).

<b>BUDGET SUMMARY BY AGENCY</b>				
(\$ in Millions)				
<b>A</b> <b>FISCAL YEAR</b>	<b>B</b> <b>TAX SUPPORTED</b>	<b>C</b> <b>GRANT SUPPORTED</b>	<b>D</b> <b>SELF SUPPORTED</b>	<b>E</b> <b>GRAND TOTAL</b>
<b>MONTGOMERY COUNTY GOVERNMENT</b>				
FY08 Approved	1,260.6	72.0	247.1	1,579.6
FY09 Recommended	1,281.4	102.2	255.9	1,639.5
Percent Change From FY08	1.6%	42.1%	3.5%	3.8%
<b>MONTGOMERY COUNTY PUBLIC SCHOOLS</b>				
FY08 Approved	1,852.2	78.6	54.3	1,985.0
FY09 Recommended	1,927.0	78.4	54.8	2,060.1
Percent Change From FY08	4.0%	-0.2%	0.8%	3.8%
<b>MONTGOMERY COLLEGE</b>				
FY08 Approved	197.4	18.8	22.0	238.2
FY09 Recommended	206.2	20.4	24.2	250.9
Percent Change From FY08	4.5%	8.7%	10.0%	5.3%
<b>MARYLAND-NATIONAL CAPITAL PARK &amp; PLANNING COMMISSION</b>				
FY08 Approved	98.4	0.6	15.7	114.7
FY09 Recommended	102.9	0.6	15.9	119.3
Percent Change From FY08	4.5%	0.0%	0.9%	4.0%
<b>ALL AGENCIES WITHOUT DEBT SERVICE</b>				
FY08 Approved	3,408.6	169.9	339.2	3,917.6
FY09 Recommended	3,517.5	201.6	350.7	4,069.8
Percent Change From FY08	3.2%	18.7%	3.4%	3.9%
<b>DEBT SERVICE: GENERAL OBLIGATION &amp; LONG TERM LEASES</b>				
FY08 Approved	244.1	-	0.8	244.9
FY09 Recommended	252.7	-	1.9	254.5
Percent Change From FY08	3.5%	0.0%	140.1%	3.9%
<b>TOTAL BUDGETS</b>				
FY08 Approved	3,652.8	169.9	339.9	4,162.5
FY09 Recommended	3,770.1	201.6	352.6	4,324.3
Percent Change From FY08	3.2%	18.7%	3.7%	3.9%



Resolution No. 12-660  
Introduced: May 15, 1992  
Adopted: May 15, 1992

COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND

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By: County Council

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Subject: Approval of the FY 1993 Operating Budget of the Montgomery County Public School System

Background

1. As required by the Education Article, Sections 5-101 and 5-102, of the Annotated Code of Maryland, on March 1, 1992 the Board of Education for Montgomery County sent to the County Executive the FY 1993 operating budget request for the Montgomery County Public School System as shown on page 2 of this resolution.
2. Section 5-102 permits the County Executive to reduce the operating budget. His reductions are shown on page 2 of this resolution.
3. The County Council has considered the request of the Board of Education and the reductions of the County Executive.

Action

The County Council for Montgomery County, Maryland approves the following resolution:

1. As allowed by the Education Article, Section 5-102, of the Annotated Code of Maryland, the County Council makes the reductions as shown on Page 2 of this resolution.
2. Funding is denied for the Pay Plan Adjustments negotiated between the Board of Education and (1) the Montgomery County Education Association, and (2) the Montgomery County Council of Supporting Services Employees; and (3) the Montgomery County Association of Administrative and Supervisory Personnel.
3. As required by the Education Article Section 5-103(e), the Council will inform the Board within 30 days of the adoption of the budget the reasons for the reductions.
4. The County Council approves the FY 1993 operating budget for the Montgomery County Public School System as shown below.

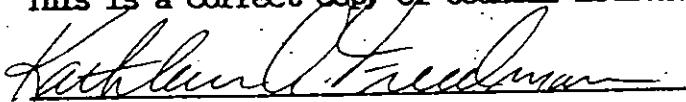
FY 1993 OPERATING BUDGET FOR THE MONTGOMERY COUNTY PUBLIC SCHOOL SYSTEM

Category	BOE Request	County Executive Reduction	County Council Reduction	Total Amount Approved
01 Administration	\$29,898,601	\$4,560,857	\$2,937,979	\$26,960,622
02 Instructional Salaries	417,517,064	31,032,705	28,074,598	389,442,466
03 Other Instructional Costs	20,857,175	490,508	578,064	20,279,111
04 Special Education	87,183,071	4,552,763	4,565,111	82,617,960
05 Student Personnel Svc	2,211,428	139,184	139,214	2,072,214
06 Health Services	22,789	537	537	22,252
07 Student Transportation	37,679,472	1,834,510	2,306,547	35,372,925
08 Oper of Plant/Eqpt	51,478,107	2,129,321	2,020,155	49,457,952
09 Maintenance of Plant	18,044,093	1,010,053	1,043,053	17,001,040
10 Fixed Charges	102,619,358	2,893,511	2,695,320	99,924,038
11 Food Services	150,303			150,303
14 Community Services	647,866	45,572	45,572	602,294
41 Adult Ed & Summer School	2,916,651		(161,495)	3,078,146
51 Real Estate Fund	722,719		25,232	697,487
61 Food Service Fund	20,804,780		475,317	20,329,463
<b>TOTAL</b>	<b>\$792,753,477</b>	<b>\$48,689,521</b>	<b>\$44,745,204</b>	<b>\$748,008,273</b>
Current Fund (Category 1-14)	768,309,327	48,689,521	44,406,150	723,903,177
Enterprise Fund (Cat 41-61)	24,444,150	0	339,054	24,105,096

Council's Additional Reduction:

Total	(3,944,317)
Current Fund	(4,283,371)
Enterprise Fund	339,054

This is a correct copy of Council Action.



Kathleen A. Freedman, CMG  
Secretary of the County Council

# SCHEDULE B-3

Expenditures Detailed By Agency, Fund Type, Government Function and Department

	Actual FY07	Budget FY08	Estimated FY08	Recommended FY09	% Chg Bud/Rec
<b>MONTGOMERY COUNTY GOVERNMENT</b>					
<b>GENERAL FUND TAX SUPPORTED</b>					
<b>General Government</b>					
County Council	7,859,937	8,895,420	8,616,980	9,580,700	7.7%
Board of Appeals	553,811	587,010	578,510	619,300	5.5%
Inspector General	534,475	667,480	632,320	732,350	9.7%
Legislative Oversight	1,072,291	1,289,590	1,255,340	1,370,300	6.3%
Merit System Protection Board	139,587	147,890	143,990	155,460	5.1%
People's Counsel	222,830	239,130	235,950	250,170	4.6%
Zoning and Administrative Hearings	442,144	520,580	509,860	551,910	6.0%
Circuit Court	9,534,408	10,288,300	10,075,350	10,747,630	4.5%
State's Attorney	11,006,616	11,818,470	11,911,140	12,595,950	6.6%
County Executive	4,581,117	5,012,790	4,863,040	6,662,680	32.9%
Board of Elections	6,807,752	5,771,010	7,054,590	6,722,790	16.5%
Board of Liquor License Commissioners	1,073,990	0	0	0	—
Commission for Women	1,206,566	1,285,680	1,230,260	1,317,430	2.5%
County Attorney	5,230,560	5,419,260	5,265,170	5,680,860	4.8%
Ethics Commission	255,032	236,410	231,680	264,310	11.8%
Finance	10,206,743	11,456,170	11,290,430	10,727,300	-6.4%
General Services	0	0	0	28,268,500	—
Human Resources	7,893,565	9,263,910	9,115,930	9,522,970	2.8%
Human Rights	2,314,553	2,480,170	2,446,790	2,501,500	0.9%
Intergovernmental Relations	714,566	853,880	836,800	882,770	3.4%
Management and Budget	3,698,568	3,967,890	3,812,170	4,067,640	2.5%
Procurement	2,912,250	3,077,500	2,790,720	0	—
Public Information	1,435,041	1,360,020	1,337,600	1,308,720	-3.8%
Regional Services Centers	3,750,411	4,250,130	4,087,690	4,588,410	8.0%
Technology Services	33,082,950	32,618,060	32,051,380	33,639,050	3.1%
<b>Total General Government</b>	<b>116,529,763</b>	<b>121,506,750</b>	<b>120,373,690</b>	<b>152,758,700</b>	<b>25.7%</b>
<b>Public Safety</b>					
Consumer Protection	2,537,256	2,712,720	2,644,460	2,708,490	-0.2%
Correction and Rehabilitation	61,047,557	63,301,520	62,816,700	65,635,130	3.7%
Emergency Management and Homeland Security	5,725,808	6,010,580	5,665,650	1,493,690	-75.1%
Police	201,959,156	219,185,250	217,196,705	238,879,570	9.0%
Sheriff	18,290,218	19,054,970	19,505,300	20,533,520	7.8%
<b>Total Public Safety</b>	<b>289,559,995</b>	<b>310,265,040</b>	<b>307,828,815</b>	<b>329,250,400</b>	<b>6.1%</b>
<b>Transportation</b>					
Public Works and Transportation	78,749,062	70,096,190	69,035,840	0	—
Transportation	0	0	0	48,599,650	—
<b>Total Transportation</b>	<b>78,749,062</b>	<b>70,096,190</b>	<b>69,035,840</b>	<b>48,599,650</b>	<b>-30.7%</b>

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# SCHEDULE B-3

Expenditures Detailed By Agency, Fund Type, Government Function and Department

	Actual FY07	Budget FY08	Estimated FY08	Recommended FY09	% Chg Bud/Rec
<b>Health and Human Services</b>					
Health and Human Services	195,682,458	224,829,230	222,462,270	199,511,060	-11.3%
<b>Libraries, Culture, and Recreation</b>					
Public Libraries	36,642,363	40,317,060	39,324,900	40,255,530	-0.2%
<b>Community Development and Housing</b>					
Economic Development	7,327,826	8,273,360	8,127,740	7,922,830	-4.2%
Housing and Community Affairs	5,138,066	5,707,640	5,768,370	5,634,370	-1.3%
<b>Total Community Development and Housing</b>	<b>12,465,892</b>	<b>13,981,000</b>	<b>13,896,110</b>	<b>13,557,200</b>	<b>-3.0%</b>
<b>Environment</b>					
Environmental Protection	3,901,654	4,765,030	4,551,100	4,762,540	-0.1%
<b>Other County Government Functions</b>					
Non-Departmental Accounts	98,219,021	113,508,010	109,794,170	122,301,590	7.7%
Utilities	23,619,090	24,410,750	24,410,750	25,866,880	6.0%
<b>Total Other County Government Functions</b>	<b>121,838,111</b>	<b>137,918,760</b>	<b>134,204,920</b>	<b>148,168,470</b>	<b>7.4%</b>
<b>TOTAL GENERAL FUND TAX SUPPORTED</b>	<b>855,369,298</b>	<b>923,679,060</b>	<b>911,677,645</b>	<b>936,863,550</b>	<b>1.4%</b>
<b>SPECIAL FUNDS TAX SUPPORTED</b>					
<b>General Government</b>					
Urban Districts	6,405,804	6,964,640	6,858,840	7,281,010	4.5%
<b>Public Safety</b>					
Fire and Rescue Service	182,381,433	188,813,850	193,529,710	190,716,110	1.0%
<b>Transportation</b>					
Transportation	0	0	0	0	—
Transit Services	103,046,777	109,277,580	108,292,480	113,321,770	3.7%
<b>Total Transportation</b>	<b>103,046,777</b>	<b>109,277,580</b>	<b>108,292,480</b>	<b>113,321,770</b>	<b>3.7%</b>
<b>Libraries, Culture, and Recreation</b>					
Recreation	28,520,067	31,054,970	30,500,190	32,403,820	4.3%
<b>Community Development and Housing</b>					
Economic Development Fund	3,734,140	802,440	3,908,160	802,440	—
<b>TOTAL SPECIAL FUNDS TAX SUPPORTED</b>	<b>324,088,221</b>	<b>336,913,480</b>	<b>343,089,380</b>	<b>344,525,150</b>	<b>2.3%</b>

**FY09 FEE AND FINE CHANGES\***

DEPARTMENT/FEE AND FINE	FY09 REVENUE CHANGE	METHOD OF CHANGE	NOTE
<b>MONTGOMERY COLLEGE</b> Tuition rate increase	5,803,910	Board of Trustees action	Increase per semester hour rate from \$96 to \$99 for County residents, \$197 to \$203 for State residents, and \$266 to \$275 for non-residents.
<b>PERMITTING SERVICES</b> Increase all allowable Permitting Fees and Fines	633,310	Executive Regulation Method 2 and 3 for most fees. Council Resolutions for administration and enforcement of registered home occupations, requests to waive parking standards, zoning compliance letters, enforcement of sign permits & licenses and special exceptions	A 2.3% fee increase in all allowable permitting fees and fines is recommended consistent with the previously adopted policy increasing fees to cover increased labor costs.
Continue Realignment of Existing Fees to Reflect Costs	1,214,700	Executive Regulation Method 3 for land development fees. Resolution for special exception fees	Effective July 1, 2008, all land development fees will be increased by 15% and special exception fees will be increased by 40% to improve cost recovery.
Credit Card Fee related to Credit Card Acceptance	569,010	Executive Regulation Method 2 and 3 for most fees. Council Resolutions for administration and enforcement of registered home occupations, requests to waive parking standards, zoning compliance letters, enforcement of sign permits & licenses and special exceptions	A one-time 2.0% fee increase in all allowable permitting fees and fines is recommended consistent with previously adopted policy increasing fees to cover costs associated with credit payment option for Permitting Services customers.
Building Permit Fee Increases Related to Green Building's Legislation	415,000	Executive Regulation Method 2	Effective July 1, 2008, a 4% increase in construction building permits is recommended to cover expenditures from the Green Building's Implementation.
<b>PUBLIC WORKS AND TRANSPORTATION</b> Subdivision Review Fee	529,160	Executive Regulation	Additional fee to facilitate subdivision plan reviews
<b>WHEATON PARKING LOT DISTRICT</b> Parking Fees	310,000	Council Resolution	Increase parking fees from \$0.35 to \$0.50 per hour.
<b>SILVER SPRING PARKING LOT DISTRICT</b> Parking Fees	1,500,000	Council Resolution	Increase hourly rates: Long Term from \$0.45 to \$0.50; Short Term from \$0.60 to \$0.75; Pay on Foot from \$0.50 to \$0.75.
<b>SOLID WASTE SERVICES</b> Increase Solid Waste Charges	1,264,250	Council Resolution	Increase single family charge per household from \$198.42 to \$202.72.
Increase Solid Waste Yard Trim Tipping Charge	661,340	Council Resolution	Increase single family charge per household from \$66 to \$73.
Increase Vacuum Leaf Collection Fees	969,870	Council Resolution	Increase single family charge per household from \$80.54 to \$93.04.
<b>TRANSIT SERVICES</b> Ride on 20-Trip Ticket	215,540	Council Resolution	Increase from \$20 to \$27
Create Ride on Monthly Pass	186,760	Council Resolution	Eliminate 2-week Ride About pass at \$10 and create monthly pass at \$25
Ride on fare for cash	203,970	Council Resolution	Increase from \$1.25 to \$1.35 for cash fare; SmartTrip base fare unchanged at \$1.25.

# **FY09 FEE AND FINE CHANGES\***

DEPARTMENT/FEE AND FINE	FY09 REVENUE CHANGE	METHOD OF CHANGE	NOTE
<b>RECREATION</b>			
Activity Fees	245,030	Executive Regulation 12-05 Method 3	Increase fees for aquatic classes, annual pool passes, and summer swim team registrations
Activity Fees	43,500	Executive Regulation 12-05 Method 3	Increase fee for Summer Fun Centers
Activity Fees	25,000	Executive Regulation 12-05 Method 3	Increase fee for open gym memberships
Activity Fees	20,000	Executive Regulation 12-05 Method 3	Increase fees for weight room memberships
Activity Fees	19,000	Executive Regulation 12-05 Method 3	Increase fees for after school programs in community centers
Activity Fees	10,000	Executive Regulation 12-05 Method 3	Increase fee for Club Friday programs
Activity Fees	450	Executive Regulation 12-05 Method 3	Increase fee for the Fairland Leadership program
<b>COMMUNITY USE OF PUBLIC FACILITIES</b>			
General User Fees	420,000	Interagency Coordinating Board Resolution	Effective September 1, 2008, fees will increase by 10% to cover growing costs and reimbursement obligations to MCPS.
<b>SHERIFF</b>			
Sheriff	200,000	State of Maryland	Process fees increased from \$30 to \$40 and refunds for non-served papers changed from \$30 to \$20
<b>COMMISSION FOR WOMEN</b>			
Fees charged for Services	21,500	Executive Order 176-05 Method 3	Workshops increase from \$16 to \$20 up by \$4; Professional Counseling increase from \$40 to \$50 up by \$10; Continuing Education Seminars increase from \$45 to \$55 up by \$10.
<b>ENVIRONMENTAL PROTECTION</b>			
Water Quality Protection Charge	2,478,853	Maryland Code, Title 4; Montgomery County Code 19-35; Montgomery County Executive Regulation 6-02; Amend County Code New County Council Resolution	Increase from \$25.23 to \$35.50 up by \$10.27
<b>FIRE RESCUE SERVICE</b>			
Ambulance/Emergency Medical Services Fee	7,047,790	Executive Regulation	Effective January 1, 2009, To provide needed resources for staffing and apparatus enhancement.
Fire Investigation Report Fee	50,000	Executive Regulation	Fee charged to provide fire investigation report.
<b>ETHICS COMMISSION</b>			
Lobbying Registration Fees As Permitted By Law	25,500	Executive Regulation adopted under Method 2, which requires Council approval; County enabling law 19A-23.	Lobbying fee that will be charged to lobbyists who must register and report lobbying activities to the commission when income or expenditures exceed \$500.
<b>GRAND TOTAL</b>	<b>25,083,443</b>		

\* All changes are assumed to be effective July 1, 2008 except as noted.  
Revenues above do not include implementation costs.



**County Executive's Recommended FY09-14 Public Services Program  
Tax Supported Fiscal Plan Summary**

(\$ In Millions)															
	App FY08	Est. FY08 3-17-08	% Chg. FY08-09 Revised	Rec. FY09	% Chg. FY09-10	Projected FY10	% Chg. FY10-11	Projected FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	
1	Total Resources														
2	Revenues	3,625.1	3,567.2	4.6%	3,792.7	4.4%	3,961.3	4.2%	4,128.6	4.6%	4,317.3	4.7%	4,520.7	4.4%	4,719.8
3	Beginning Reserves Undesignated	175.8	274.1	-22.6%	136.0	-19.5%	109.5	7.8%	-118.0	9.2%	128.9	9.6%	141.2	9.0%	151.9
4	Beginning Reserves Designated	20.7	5.8	-69.8%	6.2	44.1%	9.0	-2.5%	8.8	-3.4%	8.5	-4.6%	8.1	3.7%	8.4
5	Net Transfers In (Out)	11.5	11.3	196.3%	34.1	-20.7%	27.1	2.5%	27.8	2.5%	28.4	2.5%	29.2	2.5%	29.9
6	Total Resources Available	3,833.1	3,858.4	3.5%	3,969.1	3.5%	4,106.9	4.3%	4,283.1	4.7%	4,483.1	4.8%	4,699.2	4.5%	4,912.0
7	Less Other Uses of Resources (Capital, Debt Service, Reserve)	424.5	471.0	6.4%	451.7	12.6%	508.7	3.1%	524.8	4.3%	547.5	5.4%	577.3	5.2%	607.4
8	Available to Allocate to Agencies	3,408.6	3,387.4	3.2%	3,517.5	2.3%	3,598.2	4.5%	3,758.4	4.7%	3,935.6	4.7%	4,121.9	4.4%	4,304.6
9	Agency Uses														
10	Montgomery County Public Schools (MCPS)	1,852.2	1,841.4	4.0%	1,927.0	8.2%	2,085.9	8.1%	2,255.1	8.0%	2,435.3	7.9%	2,627.5	7.8%	2,832.4
11	Montgomery College (MC)	197.4	194.0	4.5%	206.2	8.2%	223.1	8.1%	241.3	8.1%	260.8	8.1%	281.9	8.0%	304.5
12	MNCPPC (w/o Debt Service)	98.4	97.2	4.5%	102.9	7.0%	110.0	7.2%	117.9	6.6%	125.8	6.8%	134.4	6.3%	142.9
13	MCG	1,260.6	1,254.8	1.6%	1,281.4	7.7%	1,379.6	7.5%	1,483.1	7.4%	1,592.4	7.2%	1,707.7	7.1%	1,829.5
14	Subtotal Agency Uses	3,408.6	3,387.4	3.2%	3,517.5	8.0%	3,798.6	7.9%	4,097.4	7.7%	4,414.3	7.6%	4,751.4	7.5%	5,109.3
15	Subtotal Other Uses of Resources (Capital, Debt Service, Reserve)	424.5	471.0	6.4%	451.7	12.6%	508.7	3.1%	524.8	4.3%	547.5	5.4%	577.3	5.2%	607.4
16	Total Uses	3,833.1	3,858.4	3.5%	3,969.1	8.5%	4,307.3	7.3%	4,622.1	7.3%	4,961.8	7.4%	5,328.7	7.3%	5,716.7
17	(Gap)/Available	0.0	0.0		0.0		(200.4)		(339.0)		(478.6)		(629.6)		(804.7)

- Notes:
1. Projected FY10-14 Agency Uses are based on 10-year average rate of growth plus phase-in of retiree health insurance pre-funding incremental cost.
  2. FY10-14 property tax revenues are assumed at the Charter Limit.



**\$25,000 plus Waive Early Penalty for Employees within 1 Year of Normal Retirement  
\$25,000 plus Reduce Early Penalty to 2% for Employees 1-2 Years from NR**

**Assumptions:**

Applies to Group A and H
Total Eligible 303
Retirement Effective 7/1/08
Average Salary - \$75,000
Cost amortized over 10 years
10 percent of eligibles elect to retire (30 people)
New Hires @ \$56,000
New Hire Benefits \$18,000

Half of positions remain unfilled	Year 1	Year 2	Year 3	Year 4	Year 5
Salary Savings	(\$2,239,794)	(\$2,239,794)	(\$2,239,794)	(\$2,239,794)	(\$2,239,794)
Normal Pension Cost Savings	(\$260,331)	(\$260,331)	(\$260,331)	(\$260,331)	(\$260,331)
Gross Savings	(\$2,500,125)	(\$2,500,125)	(\$2,500,125)	(\$2,500,125)	(\$2,500,125)
Amortized Pension Cost	\$0	\$545,357	\$545,357	\$545,357	\$545,357
New Hire Salary Cost (15 People)	\$840,000	\$840,000	\$840,000	\$840,000	\$840,000
New Hire Benefit Cost	\$270,000	\$270,000	\$270,000	\$270,000	\$270,000
OPEB ARC Increase	\$0	\$267,857	\$267,857	\$267,857	\$267,857
Gross Cost	\$1,110,000	\$1,923,214	\$1,923,214	\$1,923,214	\$1,923,214
Savings	(\$1,390,125)	(\$576,911)	(\$576,911)	(\$576,911)	(\$576,911)

Note: Actuarial Accrued Liability Increases by: \$3,954,000

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# **Employees Eligible For Normal Retirement** **\$25,000 Payment**

**Assumptions:**

Applies to Group A and H
Total Eligible - 525
Retirement Effective 7/1/08
Average Salary - \$75,000
Cost amortized over 10 years
15 percent of eligibles elect to retire (78 people)
New Hires @ \$56,000
New Hire Benefits \$18,000

Half of positions remain unfilled	Year 1	Year 2	Year 3	Year 4	Year 5
Salary Savings	(\$5,968,355)	(\$5,968,355)	(\$5,968,355)	(\$5,968,355)	(\$5,968,355)
Normal Pension Cost Savings	\$ (647,515)	\$ (647,515)	\$ (647,515)	\$ (647,515)	\$ (647,515)
Gross Savings	(\$6,615,870)	(\$6,615,870)	(\$6,615,870)	(\$6,615,870)	(\$6,615,870)
Amortized Pension Cost	\$0	\$ 1,283,176	\$ 1,283,176	\$ 1,283,176	\$ 1,283,176
New Hire Salary Cost (39 People)	\$2,184,000	\$2,184,000	\$2,184,000	\$2,184,000	\$2,184,000
New Hire Benefit Cost	\$702,000	\$702,000	\$702,000	\$702,000	\$702,000
OPEB ARC Increase	\$0	\$ 633,750	\$ 633,750	\$ 633,750	\$ 633,750
Gross Cost	\$2,886,000	\$4,802,926	\$4,802,926	\$4,802,926	\$4,802,926
Savings	(\$3,729,870)	(\$1,812,944)	(\$1,812,944)	(\$1,812,944)	(\$1,812,944)

Note: Actuarial Accrued Liability Increases by: \$ 9,299,000

Combined for Employees Eligible for Normal Retirement and within 2 Years of Normal Retirement  
Assuming 10 percent of early eligibles and 15 percent of normal eligibles retire

Half of positions remain unfilled	Year 1	Year 2	Year 3	Year 4	Year 5
Savings	(\$5,119,995)	(\$2,389,855)	(\$2,389,855)	(\$2,389,855)	(\$2,389,855)

Actuarial Accrued Liability Increases by: \$ 13,253,000

FY09-14 PUBLIC SERVICES PROGRAM: FISCAL PLAN				CONSOLIDATED FIRE TAX DISTRICT			
FISCAL PROJECTIONS	FY08 ESTIMATE	FY09 CE REC	FY10 PROJECTION	FY11 PROJECTION	FY12 PROJECTION	FY13 PROJECTION	FY14 PROJECTION
<b>ASSUMPTIONS</b>							
Property Tax Rate: Real Property	0.126	0.116	0.108	0.108	0.102	0.096	0.092
Assessable Base: Real Property (000)	142,437,000	158,786,000	173,760,000	187,826,000	200,598,000	214,675,000	230,037,000
Property Tax Collection Factor: Real Property	99.1%	99.1%	99.1%	99.1%	99.1%	99.1%	99.1%
Property Tax Rate: Personal Property	0.315	0.290	0.270	0.270	0.255	0.240	0.230
Assessable Base: Personal Property (000)	3,960,935	4,021,666	4,051,312	4,097,270	4,143,751	4,190,758	4,238,299
Property Tax Collection Factor: Personal Property	97.5%	97.5%	97.5%	97.5%	97.5%	97.5%	97.5%
CPI (Fiscal Year)	3.6%	2.8%	2.4%	2.5%	2.5%	2.5%	2.5%
Investment Income Yield	4.00%	2.50%	3.50%	4.00%	4.50%	4.75%	5.00%
<b>BEGINNING FUND BALANCE</b>	<b>5,649,440</b>	<b>5,874,960</b>	<b>13,128,190</b>	<b>13,674,660</b>	<b>14,679,840</b>	<b>13,488,920</b>	<b>10,210,280</b>
<b>REVENUES</b>							
Taxes	190,020,400	193,905,290	196,636,930	211,812,470	213,070,870	214,039,580	219,233,720
Licenses & Permits	1,950,000	3,200,000	3,277,440	3,359,380	3,443,360	3,529,440	3,617,680
Charges For Services	817,410	8,215,200	15,291,230	15,673,520	16,065,360	16,467,000	16,878,670
Fines & Forfeitures	230	0	0	0	0	0	0
Intergovernmental	3,911,000	2,510,000	2,570,740	2,635,010	2,700,880	2,768,400	2,837,610
Miscellaneous	2,100,000	1,490,000	2,008,710	2,327,930	2,667,380	2,897,060	3,136,990
<b>Subtotal Revenues</b>	<b>198,799,040</b>	<b>209,320,490</b>	<b>219,785,050</b>	<b>235,808,310</b>	<b>237,947,850</b>	<b>239,701,480</b>	<b>245,704,670</b>
<b>INTERFUND TRANSFERS (Net Non-CIP)</b>							
Transfers To Debt Service Fund	(4,337,810)	(8,851,150)	(10,987,790)	(12,797,690)	(12,993,910)	(12,987,380)	(12,300,210)
GO Bonds	(4,217,060)	(8,730,400)	(10,867,040)	(12,676,940)	(12,873,160)	(12,866,630)	(12,179,460)
Long Term Leases	(3,583,440)	(4,176,900)	(6,325,040)	(8,167,710)	(8,413,680)	(8,448,280)	(8,398,860)
Transfers To The General Fund	(633,620)	(4,553,500)	(4,542,000)	(4,509,230)	(4,459,480)	(4,418,350)	(3,780,600)
DCM	(120,750)	(120,750)	(120,750)	(120,750)	(120,750)	(120,750)	(120,750)
<b>TOTAL RESOURCES</b>	<b>200,110,670</b>	<b>206,344,300</b>	<b>221,925,450</b>	<b>236,685,280</b>	<b>239,633,780</b>	<b>240,203,020</b>	<b>243,614,740</b>
<b>CIP CURRENT REVENUE APPROP.</b>							
PSP OPER. BUDGET APPROP/ EXP'S.	(706,000)	0	0	0	0	0	0
Operating Budget	(193,529,710)	(190,716,110)	(190,716,110)	(190,716,110)	(190,716,110)	(190,716,110)	(190,716,110)
Labor Agreement	n/a	n/a	(8,885,680)	(19,294,640)	(19,368,180)	(19,368,180)	(19,368,180)
Annualizations and One-Time	n/a	n/a	588,610	588,610	588,610	588,610	588,610
OBI's	n/a	n/a	(5,296,000)	(5,417,000)	(5,635,000)	(5,635,000)	(5,635,000)
Central Duplicating Deficit Recovery Charge	n/a	n/a	16,080	16,080	16,080	16,080	16,080
Apparatus Replacement	n/a	n/a	(109,830)	513,380	513,380	513,380	513,380
Four Person Staffing	n/a	n/a	(3,847,880)	(7,695,760)	(11,543,640)	(15,391,520)	(19,239,400)
<b>Subtotal PSP Oper Budget Approp / Exp's</b>	<b>(193,529,710)</b>	<b>(190,716,110)</b>	<b>(208,250,790)</b>	<b>(222,005,440)</b>	<b>(226,144,860)</b>	<b>(229,992,740)</b>	<b>(233,840,620)</b>
<b>OTHER CLAIMS ON FUND BALANCE</b>	<b>0</b>	<b>(2,500,000)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL USE OF RESOURCES</b>	<b>(194,235,710)</b>	<b>(193,216,110)</b>	<b>(208,250,790)</b>	<b>(222,005,440)</b>	<b>(226,144,860)</b>	<b>(229,992,740)</b>	<b>(233,840,620)</b>
<b>YEAR END FUND BALANCE</b>	<b>5,874,960</b>	<b>13,128,190</b>	<b>13,674,660</b>	<b>14,679,840</b>	<b>13,488,920</b>	<b>10,210,280</b>	<b>9,774,120</b>
<b>END-OF-YEAR RESERVES AS A</b>							
<b>PERCENT OF RESOURCES</b>	<b>2.9%</b>	<b>6.4%</b>	<b>6.2%</b>	<b>6.2%</b>	<b>5.6%</b>	<b>4.3%</b>	<b>4.0%</b>

**Assumptions:**

1. The tax rates for the Consolidated Fire Tax District are adjusted to maintain a fund balance of approximately 2 percent of resources.
2. The labor contract with the International Association of Fire Fighters, Local 1664 expires at the end of FY11.
3. The labor contract with the Municipal and County Government Employees Organization, Local 1994 expires at the end of FY10.
4. These projections are based on the Executive's Recommended Budget and include negotiated labor agreements, the operating costs of capital facilities, the fiscal impact of approved legislation or regulations, and other programmatic commitments. They do not include inflation or unapproved service improvements. The projected future expenditures, revenues, and fund balance may vary based on changes to fee or tax rates, usage, inflation, future labor agreements, and other factors not assumed here.
5. The costs of capital facilities will be included in future budgets as projects are completed and their costs defined. Implementation of additional phases of the Four-Person Staffing initiative will be reviewed annually.

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	A	B	C	D
1	INCREASES IN TAXES			
2				
3	Property tax			FY09 increase
4	Exceeded Charter limit:	Actual amount	Adj for inflation	\$millions
5	FY03	4.3	5.2	
6	FY04	29.2	34.6	
7	FY05	37.3	42.7	82.6
8		70.8	82.6	
9	CPI, from p77-1		% increase to 09	
10	FY03	108.4	21.6%	
11	FY04	111.1	18.6%	
12	FY05	115.0	14.6%	
13	FY06	119.7		
14	FY07	123.7		
15	FY08	128.2		
16	FY09	131.8		
17				
18				
19	Income tax. Increased rate from 2.95% in FY03 to 3.2% in FY04 and after.			
20	FY09 estimate, at 3.2%	1,325,440,000		
21	FY09 estimate, per 1%	414,200,000		
22	FY09 estimate, at 2.95%	1,221,890,000		
23	Increase from increased rate	103,550,000		103.6
24				
25	Energy tax, +356.45% since FY04			
26	FY09 estimate	121.6		
27	FY09 estimate, before increase	26.6		
28	Increase from increased rates	95.0		95.0
29				
30	Telephone tax			
31	For FY 04, the Council: increased the telephone tax on land lines by 116.2%, from 92.5¢ to \$2.00			
32	per month [Centrex rates are 1/10 this rate]; increased the tax on cell phones from \$0.00 to \$2.00			
33	per month;			
34	FY09 estimate, land lines, at \$2.00	9,250,000		
35	FY09 estimate, land lines, at \$0.92	4,255,000		
36	Increase from increased rates	4,995,000		5.0
37				
38	FY09 estimate, cell, at \$2.00	22,550,000		
39	FY09 estimate, cell, at \$0.00	0		
40	Increase from increased rates	22,550,000		22.6
41	Total increase from increased rates			308.7

# RETIREE HEALTH BENEFITS PRE-FUNDING ON AN EIGHT-YEAR SCHEDULE

Agency	2009	2010	2011	2012	2013	2014	2015	Total over Future 7 years
8-Year Phase-In								
County	\$ 23,000,000	\$ 39,000,000	\$ 55,000,000	\$ 71,000,000	\$ 87,000,000	\$ 103,000,000	\$ 115,000,000	\$ 493,000,000
MCPS	29,000,000	48,000,000	67,000,000	86,000,000	105,000,000	124,000,000	138,000,000	597,000,000
College	900,000	1,600,000	2,300,000	3,000,000	3,700,000	4,400,000	4,700,000	20,600,000
M-NCPPC (MCG portion - 45%)	2,250,000	3,600,000	5,400,000	6,750,000	8,550,000	9,900,000	11,250,000	47,700,000
Subtotal - Tax Supported Agencies	55,150,000	92,200,000	129,700,000	166,750,000	204,250,000	241,300,000	266,950,000	1,158,300,000
WSSC	.	.	.	.	.	.	.	.
Total	\$ 55,150,000	\$ 92,200,000	\$ 129,700,000	\$ 166,750,000	\$ 204,250,000	\$ 241,300,000	\$ 266,950,000	\$ 1,158,300,000



OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett  
County Executive

Joseph F. Beach  
Director

MEMORANDUM

March 25, 2008

TO: Michael J. Knapp, Council President

FROM: Joseph F. Beach, Director, Office of Management and Budget

SUBJECT: Expedited Bill, Retirement Incentive Plan

The purpose of this memorandum is to transmit a fiscal impact statement to the Council on the subject legislation.

**LEGISLATION SUMMARY**

The expedited bill amends the Employees' Retirement System to provide for a one-time retirement incentive program for Group A and Group H members who are either eligible for normal retirement, or eligible for early retirement and within 2 years of normal retirement eligibility. In his recommended FY09 budget, the County Executive indicated that he intended to offer a retirement incentive plan that would generate an estimated \$5 million in savings resulting from downsizing of the government. It is expected that 54 positions will be abolished as a result of the incentive program. The proposed incentive would provide a \$25,000 payment to eligible plan participants, paid either in a lump sum, or over time. In addition, the plan would waive early retirement penalties for anyone within one year of normal retirement and reduce the penalty for anyone who would be retiring between one and two years early. There is a pool of 828 members who would be eligible for the incentive, and the expedited bill would cap incentive payments to 20 percent of eligible members. Should more than 20 percent of eligible members seek incentive payments, eligibility would be based on seniority.

**FISCAL SUMMARY**

The legislation is expected to result in \$5 million in savings in FY09, and savings of between \$1.5 million and \$2.5 million in FY10, depending on how many employees elect the benefit. Savings estimates assume that 15 percent of members eligible for normal retirement and 10 percent of members eligible for early retirement elect the benefit – a total of 108 employees. The estimates assume the average salary and benefit levels for those eligible, and further assume that all retirements are effective July 1, 2008.

Cost of the program will be paid from the Employees Retirement System and will be amortized over a 10 year period. The attached spreadsheet summarizes the cost and savings.

Office of the Director

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Michael J. Knapp, Council President

March 25, 2008

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The plan actuary estimates that the actuarial accrued liability of the plan will increase by \$13.2 million. This will have a negligible effect on the funded status of the plan.

Douglas Rowe, FSA, the pension plan's actuary and G. Wesley Girling with the Office of Human Resources contributed to and concurred with this analysis.

JFB:lob

cc: Timothy L. Firestine, Chief Administrative Officer  
Kathleen Boucher, Assistant Chief Administrative Officer  
Rebecca Domaruk, Offices of the County Executive  
G. Wesley Girling, Benefits Manager, Office of Human Resources

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**\$25,000 plus Waive Early Penalty for Employees within 1 Year of Normal Retirement**  
**\$25,000 plus Reduce Early Penalty to 2% for Employees 1-2 Years from NR**

**Assumptions:**

Applies to Group A and H
Total Eligible 303
Retirement Effective 7/1/08
Average Salary - \$75,000
Cost amortized over 10 years
10 percent of eligibles elect to retire (30 people)
New Hires @ \$56,000
New Hire Benefits \$18,000

Half of positions remain unfilled	Year 1	Year 2	Year 3	Year 4	Year 5
Salary Savings	(\$2,239,794)	(\$2,239,794)	(\$2,239,794)	(\$2,239,794)	(\$2,239,794)
Normal Pension Cost Savings	(\$260,331)	(\$260,331)	(\$260,331)	(\$260,331)	(\$260,331)
Gross Savings	(\$2,500,125)	(\$2,500,125)	(\$2,500,125)	(\$2,500,125)	(\$2,500,125)
Amortized Pension Cost	\$0	\$545,357	\$545,357	\$545,357	\$545,357
New Hire Salary Cost (15 People)	\$840,000	\$840,000	\$840,000	\$840,000	\$840,000
New Hire Benefit Cost	\$270,000	\$270,000	\$270,000	\$270,000	\$270,000
OPEB ARC Increase	\$0	\$267,857	\$267,857	\$267,857	\$267,857
Gross Cost	\$1,110,000	\$1,923,214	\$1,923,214	\$1,923,214	\$1,923,214
Savings	(\$1,390,125)	(\$576,911)	(\$576,911)	(\$576,911)	(\$576,911)

Note: Actuarial Accrued Liability Increases by: \$3,954,000



# **Employees Eligible For Normal Retirement** **\$25,000 Payment**

**Assumptions:**

Applies to Group A and H
Total Eligible - 525
Retirement Effective 7/1/08
Average Salary - \$75,000
Cost amortized over 10 years
15 percent of eligibles elect to retire (78 people)
New Hires @ \$56,000
New Hire Benefits \$18,000

Half of positions remain unfilled	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Salary Savings	(\$5,968,355)	(\$5,968,355)	(\$5,968,355)	(\$5,968,355)	(\$5,968,355)	(\$5,968,355)
Normal Pension Cost Savings	\$ (647,515)	\$ (647,515)	\$ (647,515)	\$ (647,515)	\$ (647,515)	\$ (647,515)
Gross Savings	(\$6,615,870)	(\$6,615,870)	(\$6,615,870)	(\$6,615,870)	(\$6,615,870)	(\$6,615,870)
Amortized Pension Cost	\$0	\$ 1,283,176	\$ 1,283,176	\$ 1,283,176	\$ 1,283,176	\$ 1,283,176
New Hire Salary Cost (39 People)	\$2,184,000	\$2,184,000	\$2,184,000	\$2,184,000	\$2,184,000	\$2,184,000
New Hire Benefit Cost	\$702,000	\$702,000	\$702,000	\$702,000	\$702,000	\$702,000
OPEB ARC Increase	\$0	\$ 633,750	\$ 633,750	\$ 633,750	\$ 633,750	\$ 633,750
Gross Cost	\$2,886,000	\$4,802,926	\$4,802,926	\$4,802,926	\$4,802,926	\$4,802,926
Savings	(\$3,729,870)	(\$1,812,944)	(\$1,812,944)	(\$1,812,944)	(\$1,812,944)	(\$1,812,944)

Note: Actuarial Accrued Liability Increases by: \$ 9,299,000

## **Combined for Employees Eligible for Normal Retirement and within 2 Years of Normal Retirement** **Assuming 10 percent of early eligibles and 15 percent of normal eligibles retire**

Half of positions remain unfilled	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Savings	(\$5,119,995)	(\$2,389,855)	(\$2,389,855)	(\$2,389,855)	(\$2,389,855)	(\$2,389,855)

Actuarial Accrued Liability Increases by:

\$ 13,253,000

<b>FY08 TAX SUPPORTED SUPPLEMENTAL APPROPRIATIONS</b>		<b>AMOUNT</b>
<b>Approved</b>		
<b>Operating Budget</b>		
16-259 MCG-DHCA Fire Sprinklers for Group Homes (approved 7/24/07)		250,000
16-285 MCG - CE Streets & Roads Comprehensive Revisions (approved 7/31/07)		200,000
16-301 MCG-EDF Emergency Assistance Program - Drought (approved 9-25-07)		1,500,000
16-337 MCG - Conference and Visitors Bureau NDA (approved 10-09-07)		32,440
16-325 Fire and Rescue Maintenance Facility (\$1,681,520 in MCFRS and \$301,910 in MCG Debt Service) (approved 10-2-07)		1,992,430
16-339 Sandy Spring Odd Fellows Hall (approved 10-16-07)		90,000
16-378 MNCPPC - Maintenance of School Ballfields (approved 11/13/07)		367,000
16-387 MNCPPC - Sustainable Quality of Life Project (approved 11/27/07)		150,000
16-388 MNCPPC - ICC Environmental Project Monitoring (approved 11/27/07)		206,000
<b>Subtotal Approved PSP</b>		<b>4,787,870</b>
<b>CIP Current Revenue</b>		
<b>Subtotal CIP CR</b>		<b>0</b>
<b>Subtotal Approved:PSP and CIP CR</b>		<b>4,787,870</b>
<b>FY08 Pending Supplemental Appropriations</b>		
MCG - Arts and Humanities Council (introduced 11/13/07)		200,000
Germantown Incubator (introduced 12/11/07)		850,000
Potential Supplementals (see below for details)		17,302,330
<b>Subtotal:Pending Tax Supported Supplemental Appropriations</b>		<b>18,352,330</b>
<b>FY08 Potential Supplemental Appropriations</b>		
Snow Supplemental and Potential Cost Over-Runs		15,951,330
Family Justice Center		500,000
Potential Non-Profit Contract Awards		500,000
TIF Supplementals		351,000
<b>Subtotal:Potential Tax Supported Supplemental Appropriations</b>		<b>17,302,330</b>



MONTGOMERY COUNTY  
COUNCIL

2008 APR -7 PM 2:03


OFFICE OF THE COUNTY EXECUTIVE  
ROCKVILLE, MARYLAND 20850

Isiah Leggett  
County Executive

## MEMORANDUM

April 7, 2008

TO: Michael J. Knapp, Council President

FROM: Isiah Leggett, County Executive 

SUBJECT: FY09 Operating Budget: County Reserves and Retiree's Health Insurance

As the Council begins its review of the FY09 operating budget, I wanted to express my concern with two potential approaches to identifying additional resources for the operating budget: lowering the County reserve levels for tax supported funds and further extension of the period for pre-funding health insurance benefits for retired employees. I understand the Council's desire to restore some of the reductions in the operating budget I was forced to make due to current fiscal constraints. However, for the reasons discussed below, this would be a short-sighted approach that would compound the structural imbalance in the County's budget. I believe that our options at this point are very limited and that bringing down the rate of growth in spending is the most responsible approach to putting the County's financial house in order.

### **Reserves – Maintain the policy at 6%**

- 1) In relation to the County's nearly \$4 billion tax supported budget, the projected FY09 undesignated reserves are a relatively small amount as the table below demonstrates:

Undesignated Reserve	109.496	2.76%
Designated Reserve	9.004	0.23%
Revenue Stabilization Fund	119.648	3.01%
Total Reserve	238.148	6.00%

- a. Reducing reserves to 5% reduces undesignated reserves by \$40 million to \$69.8 million.
- b. The FY08 revenue loss with transfer, recordation, and income tax was nearly \$78 million. If this occurred again, the undesignated reserves would be eliminated, and we would have no funds for services as basic as snow removal, which typically costs in excess of \$15 million, or any other unexpected mid-year supplemental or special appropriation.
- c. There would be a major draw on tax-supported resources to replenish the reserves in the coming fiscal year.

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- d. We have few options to raise revenue mid-year. We can't raise property tax or income tax. The energy tax is already a big burden especially with utility costs.
  - e. The probability of continued mid-year revenue losses remains high.
- 2) Uncertainty in the Economy:
- a. Economy continues to be unstable: major, daily market fluctuations
  - b. Fed rate cuts have further reduced investment income
  - c. Recordation tax in Feb was 44% below the previous year – Is this the bottom?
  - d. Will the state have to make more cuts if its revenue declines?
    - 1. Speed cameras (\$15 million in FY09), College Aid, Teacher pensions next?
  - e. Revenue uncertainty: Ambulance fee (\$6 M.) and controlling interest (\$12.6 M.)
- 3) Uncertainty with Expenditures:
- a. Fuel and utilities: Ride On, Police Fleet
  - b. Justice Department Audit of ADA compliance
  - c. Public Safety Overtime
  - d. Health care and Pension costs (market turmoil will require larger County contribution)
- 4) Be careful about the future
- a. Cutting reserves and replacing with ongoing costs creates a larger imbalance for FY10
  - b. The gap is already over \$200 M: will grow with additional spending or revenue losses.
  - c. Can we exceed the charter limit two years in a row?
- 5) Rating agencies – where is the tipping point?
- a. We have changed our plan for retiree health funding in the face of a \$3.2 billion liability
  - b. Early retirement increases liability in pension fund
  - c. Our funded ratio in pension plans is already lower than national averages (less than 80%)
  - d. Could a smaller reserve be the straw that breaks the camel's back?
  - e. Moody's report: imbalance between revenue and expenditures and use of reserves and the section on the economically sensitive taxes relative to the 6% -- Is it enough?

**Retiree Health Benefits Funding -- Do not go beyond 8 year phase-in**

- County agencies have a sizeable liability related to health benefits it has promised to retirees.
- Currently, agencies pay for those costs on a pay-as-you-go basis. A claim for health services provided to an existing retiree is submitted and it is paid.

- The pay-as-you-go amount grows significantly each year as more and more employees retire and become eligible. For FY09 it is estimated at \$80 million, an increase of 13% over FY08 and 25% over FY07. The Fitch credit rating agency notes that "Fitch believes that the looming OPEB liability for many governments, if not confronted over a reasonable time, will eventually manifest itself as a monumental budget challenge."
- The total liability for retiree health for county agencies is estimated at \$3.2 billion and will continue to grow as the County hires new employees who will be eligible for the benefit.
- Confronting the liability means measuring it and funding it on an actuarial basis, as is done with pension benefits. It can also mean lowering benefit levels.
- To fund the County liability on an actuarial basis will require an annual contribution of \$268 million.
- The longer we delay funding it on a full actuarial basis, the more it will cost. This is because funds not used to pay benefits will be invested and generate investment earnings.
- The County Council approved a policy last year to fund to full actuarial cost over 5 years.

#### **Recommended Budget proposes revising schedule from 5 years to 8 years**

- My budget recommends changing to an 8 year phase-in. This was based in part on need to adjust schedule to help close budget gap and also on rating agencies' apparent acceptance of Howard County, also rated triple AAA, recently adopting an 8 year phase-in period.
- We will need to convince the rating agencies of our continued intent to confront this liability.

#### **Approach to Ratings Analysis**

- As part of its fiscal management review, the rating agencies will look not only at the County's OPEB liability, but also two other long term liabilities, its pension fund and its debt. The County has increased its GO debt levels to \$300 million a year.
- These other liabilities are sizable and include:

• Pensions	\$4.4 billion	79% Funded Ratio
• Retiree Health	3.2 billion	0% Funded Ratio
• G.O. Debt	1.6 billion	71% Paid off in 10 years
• Total	\$9.2 billion	

I trust this information will be useful to the Council in its deliberations on the FY09 Operating Budget. If you are in need of additional information or clarification on these matters please do not hesitate to contact me or Executive Branch staff.

IL:jfb

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Michael J. Knapp

April 7, 2008

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cc: Timothy L. Firestine, Chief Administrative Officer  
Jennifer E. Barrett, Director, Department of Finance  
Joseph F. Beach, Director, Office of Management and Budget  
Kathleen Boucher, Assistant Chief Administrative Officer

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